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To my friend A. Shepherd Esq
With all good wishes
from J. Mills
June 29th/23

The Romance of Trade.

A Survey Commercial and Economic.

BY

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1923

NOTTINGHAM:

THE "TRADER" OFFICE, 58, HOUNDS GATE.

H. B. SAXTON, STATIONER, KING STREET.

PREFACE.

This book is the result of a series of addresses given at University College, Nottingham. The addresses were reported very fully in the "Trader" and attracted the attention of Sir John Turney, Kt., who considered that they should have a wider circulation in book form. In order that the book might be more readily available Sir John Turney most generously bore the expense of an edition of 2,000 copies. The only condition he made was that the price fixed should be low and that the whole of the proceeds of the sale should go to the Endowment Fund of University College, Nottingham. I would take this opportunity of personally thanking Sir John Turney for his interest not only in these lectures, but in the College, and not only in the College, but in every good work in Nottingham.

I am also indebted to Mr. J. W. Russell, of the "Trader," whose full reports of the addresses enabled me to reproduce more easily

the chapters of this book of which the original notes were very scanty.

Sir George B. Hunter, K.B.E., of Newcastle-on-Tyne, one of our greatest shipbuilders, with very great kindness, consented to write a short introduction to the book. The interest that Sir George takes not only in matters calculated to assist the industry and commerce of the country, but in religion and temperance, assured one that he, like Sir John Turney, was interested in a book in which an attempt had been made to look at questions of economic national importance from the broadest possible point of view.

A. W. KIRKALDY.

University College,
Nottingham,
February, 1923.

FOREWORD

.. BY ..

SIR GEORGE B. HUNTER, K.B.E.

The Science of "Economics" or "Political Economy" is considered by many to be a dry and uninteresting study. So it is, as sometimes treated. Few writers make it easy and pleasant. Ordinary men and women cannot feel interested in wearisome statistics and can take no pleasure in intricate theories, speculations and arguments, about difficult financial and economic problems, which, (as they believe) do not concern, but only bewilder and bore them. Yet it is vitally important that the ordinary man should know and understand economic science so far as it affects his conduct and aims.

The study of Economics is not made attractive and is consequently neglected; and, it is evident from their speeches, writings and actions that politicians and Labour leaders, employers, and members of Trade Unions, fail to understand the economic problems and laws on which our prosperity and happiness largely depend, or regard them with a prejudiced and biassed mind, or simply refuse to allow economic truths to govern or guide their actions.

We find the majority of our people expecting and striving to obtain more food

and clothing, better houses, and higher and more constant real wages, by shortening work hours and doing less work! We hear from people who ought to know better, a futile claim, that our people should or could have better wages and better living conditions after the destruction and waste of the Great World War than before the War—even if they produce less. Theories and experiments are being advocated again which have been tried and have disastrously failed. We find Communists and Anarchists conspiring and aiming at the destruction of the process of a continuous development of industry, commerce, invention and science, which has, in a little more than a century of steady progress, improved the standard of living of our people by more than a hundred per cent., and reduced our death rate by nearly fifty per cent. And we meet some aimiable and well-meaning parsons and philanthropists and socialists, who, because they know little of economic science and little or nothing of the real problems of industry, commerce and poverty, are consciously, or unconsciously, aiding these men who desire to destroy the industrial edifice on which the prosperity and safety of the people depend.

The simple and elementary truths and laws of Political Economy are not difficult, but easy to learn and understand as they are treated by Professor Kirkaldy in "Wealth"

and in "The Romance of Trade." They should be known by the ordinary man, whether poor or rich, in order to guide him as a workman and Trade Unionist, or a capitalist or employer, as a citizen and as a politician. They ought to be taught to boys and girls in our elementary schools.

Professor Kirkaldy makes the study simple, easy, and attractive. He treats it historically and experimentally rather than as an academic and abstruse science. He has not written a Romance, but has made Political Economy as interesting and attractive as a romance. I admire, and strongly recommend the widest possible circulation of his books. They will guide and help us on the road to national prosperity and a higher standard of life.

G. B. HUNTER.

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THE ROMANCE OF TRADE.

INTRODUCTORY.

Chapter I.

THE present economic situation of the world is one full of problems and difficulties the solution of which is of vital importance to our future well-being and for the maintenance and progress of our civilization. Up to 1914 this country was very wealthy and the position was of considerable advantage as compared with that enjoyed at any other epoch in our history: to-day we find ourselves comparatively poor. What has happened? There has been a great epoch breaking war—a war on a scale, and carried on with a ferocity hardly equalled in human history. It is not perhaps correct to call it the greatest war in history. We have seen many millions of people engaged it it: we have realised the drain on our resources and on our manhood. We should never forget, however, that in the past there have, from time to time, been occasions when Europe, for instance, was over-run and the developing civilisation almost extinguished by hordes of invaders.

From the economic standpoint we find that the accumulations of wealth which placed

us in a position of advantage have been greatly exhausted by the process of war, and the accumulations which would have been added to those we already possessed have, in the course of four or five years, not been made, thus we have had nothing to speak of to add to exisisting wealth. Wealth was produced in increased quantities during that period, but it was produced for destructive purposes, and now this country finds itself burdened with many thousands of millions of debt. We are faced, too, with the great and difficult problems connected with unemployment, the unsatisfactory state of the foreign markets, the unsatisfactory state of our own markets, and that extraordinary phenomenon—a break in the exchanges. Never has a more intricate economic situation faced a people, nor is the problem confined to one country : the whole world is feeling acutely the effects of the last eight years of war and uncertainty. Prior to the fateful days of the summer of 1914, there was a tendency towards international commercial solidarity. Efforts were being made with seeming success to standardise commercial law and practice. Jealousy and ambition ruined the whole prospect. Commercial statesmanship of a high order will be required to repair the damage done.

Can nations, after such a searching trial learn to sink self and realise that their individual well-being depends on world friendship? The answer may well depend on the

success of the League of Nations.

ECONOMIC INVESTIGATION IGNORED.

As a people we have ignored far too long the question of economic investigation and the unravelling of those natural laws which warrant us in calling economics a science. Even during the war period had there been a little more real knowledge and a little less cleverness amongst those who had to carry on certain important functions, can one think that we should have suffered so much materially as we have done. We were served by a band of very earnest and clever young men, but a little knowledge and experience would have enabled them to avoid many an error into which they fell. Certain rule of thumb solutions were attempted during the war. The world has had a varied experience and it has paid dearly for it in many instances. Surely it is worth while to know something more of these phenomena.

Take the exchange question. This is not the first time in commercial history that the exchanges have broken down and business people have been confronted with problems similar to those facing us to-day.

One great instance was in the beginning of the 17th century when the commercial centre of the world was Amsterdam and not London. Business men entered into transactions which promised them a good profitable return on the outlay of capital entailed, yet when these transactions worked out it was found that there was a loss owing to the

unsatisfactory state of the currency. Through the discovery of the silver mines in America, Europe was flooded with silver and there was a new series of values, thus to add to the complication, those countries which could not readily get hold of this silver, debased their currencies in order to make them go further. The difficulties were enormous. We shall attempt later on to work out how, in the 17th century, this position was faced and a solution discovered.

FUNCTION OF THE ECONOMIST.

To begin with a word should be said as to economics itself. Some people deny that economics is a science: it is difficult to say whether it is or is not, but when Adam Smith published his great book "The Wealth of Nations" in 1776 he was hailed as a discoverer of a new science.

Economics, of course, differs from the exact sciences in that we have the extraordinary phenomenon of human nature to deal with. If we place the same economic problem before half a dozen men it will not appeal to any two of them in exactly the same way. The work of the economist is to deal with wealth but not to enable an individual or a group of individuals to become wealthy. The work of the economist is to interpret natural laws concerning wealth and to make them known to the student who wishes to know them. These laws are immutable. If the individual or the community will work and act in conso-

nance with them humanity will benefit : if he ignores them or, knowing them, works against them, he will inevitably suffer loss. There are certain great natural laws affecting the material side of life that it is well worth while, from a material point of view, for us to know. When the professor of an exact science denies that economics should be considered as a science it is well to remember the development of the exact sciences, and note that they have not always been exact sciences. The science of chemistry was evolved from alchemy, and astronomy emerged from astrology, thus if economics be not yet a science it may be in consequence of the previous stages not being sufficiently understood, and by further research we may eventually make it a science. There are those who claim it is a science and those who say it is not, and there are those who prefer to keep their own counsel on the subject.

FOUR STAGES OF MANKIND.

One cannot pretend to say how old the human race is. At the British Association meetings last summer there were discussions as to the age of the world, and it was brought down to fairly narrow limits. It was decided that the world was between 4,000,000,000 and 4,500,000,000 years old. We have 6,000 or 7,000 years' knowledge of mankind, more or less, and it is during this period that we have known mankind that we can see what has been his attitude towards this fascinating subject.

Roughly speaking, mankind has passed through four great stages. So far as we know, the original man was a hunter. It was a very hard life. We have no records of this primitive hunting time, but we can, by using our imagination legitimately, conjure up a picture of this primitive hunter. Here was a being, with hands and feet it is true, and with certain strength, surrounded by other animals who were much better equipped for primitive conditions than man. The only thing in which man had the advantage was intelligence. He had a brain, and if he cared to cultivate his powers he could develop a considerable amount of intelligence which would put him on a very superior footing as compared with any other members of the animal creation. But if we think of primitive man with nothing but his hands and his feet, with very few clothes on, stalking through the forest or jungle land, coming across a lion or a tiger, we see that the conditions were not in favour of the man. Man and the ape were not in strength equal to many other members of the animal world. Primitive man would wake up in the morning hungry. What was to happen? If he was near a place where there was some wild fruit he would satisfy his hunger, but not perhaps very satisfactorily. He, however, soon learnt the advantage of animal food, and his intelligence told him how to use it and how to make it more nourishing. Consider the problem facing one of these early primitive people when he woke up in the morning and

wanted something for breakfast and there was nothing in the larder! He had to catch some bird, fish, or animal. So long as he was unaided, so long as he had only his hands and feet he was at a very considerable disadvantage. If he wanted a rabbit or a hare he found their speed superior to his, and if he wanted to catch a fish he had to learn how to tickle a trout or he needed a bent pin and a worm and a piece of cotton for a fishing line. But he soon discovered that if he made use of some of the common objects lying about he became more on an equality with the animal he wanted to catch. In other words, if he picked up a smooth stone or the branch of a tree which had a certain shape, he found that it aided him very materially in getting his breakfast. A missile or weapon soon showed its value to primitive man. Imagine what it meant when mankind discovered the value of the assistance rendered by a weapon or a missile. The first man who discovered that, little realised that he was taking advantage, and making use of what we call one of the factors of production, which, as time went on, was going to lessen the burden of life for man and add enormously to his possibilities of enjoyment, to the increase of civilisation and to the improvement of all that we hold highest and best in this world. The man who first stooped down and picked up a pebble and threw it at a rabbit little realised that he was making use of capital.

MAN AS A HUNTER.

That is a striking illustration of what capital does for man. As soon as man makes use of these aids to assist him he uses capital, and the great function of capital is to ease the burden of life, to make life easier. It is well worth while to bear in mind from a simple primitive illustration like that what capital was destined, and is yet destined, to do for man.

In some cases men who have amassed capital have not used it aright. The purpose of economics is to make men realise what the function of capital is and to impress on men the importance of using it aright, not only for the benefit of themselves but of others.

The hunting stage continued for a very considerable time. Man soon found that he got a supply of food more readily by using missiles, that he got a stock of food that would last him a day or two or perhaps a week, and while he had a stock of food, if he had a few drops of Scotch blood in his veins he would soon think out other projects that would make life more comfortable.

But there were other phenomena that arose, full of interest. Aristotle tells us that man is a gregarious animal; that he likes to live in communities; and at a very early date, even in this hunting stage, mankind did live in communities. Now what did they discover?

They discovered not only the advantage of using missiles and weapons and fashioning them to a special shape in order to enable them to do special things better, but they discovered that some men could make these missiles better and more quickly than other men. They went to Mr. Smith for arrow heads because his arrow heads were much more deadly and did their work better than Mr. Jones's; that somebody else's spear heads were better than Mr. Tomkin's; that if a man cultivated fashions and wanted his furs made up in the best possible style he found that some member of the community had a better taste than another man, and so on. In connection with all things that were required, it was discovered that certain people had special facilities or talents for certain work; and so we get separation of employments. It must have been a dreadfully tedious life when a family endeavoured to do everything for itself. What a low standard of life we should have to tolerate if we attempted that! This very soon appealed to man, and as we get separation of employments we get a whole crop of economic problems. But primitive man did not know they were problems. He wanted his breakfast or a wigwam.

THE EXCHANGE PROBLEM ARISES.

As soon as we get separation of employment we are up against the very difficulty we are facing to-day. Mr. Smith makes arrow heads, Mr. Brown makes spear heads, and

Mr. Robinson goes hunting and brings in food. Mrs. Tomkins has a great art in putting skins together and making the best Bond-street fashions of the day. Mr. Smith finds that his sealskins get shabby and wants a new coat and goes to Mrs. Tomkins. He says: "I have got a dozen arrow heads: give me that coat and I will give you the dozen arrow heads." She says: "I don't want your arrow heads." "But I want your coat," he says, "and that is all I have to give for it." There is the question of exchange at once. What is commerce? Exchange of surpluses—exchange of national or individual surpluses. We make much more of a commodity than we require for ourselves, we know that we can exchange surpluses against other things that we want and that we can benefit by the exchange and live at a higher standard of comfort—there was exactly the same problem between Smith and Mrs. Tomkins.

What was wanted to bring things right primitive man did not know, but we can tell him. What was wanted was something that would serve as a standard of value—what was the value of those arrow heads and what was the value of the coat. That helps us on a step. If Mrs. Tomkins does not want those arrow heads something more is wanted, and that something is a medium of exchange, or current money. As soon as we get current money the thing is as simple as A B C. In our foreign trade at the present time, while we may have

current money, the funny thing is that it does not work. We have very much the same problem under another set of conditions.

MAN AS A SHEPHERD AND DAIRYMAN.

Then another stage developed. The second stage through which mankind passed was the pastoral stage. How did that arise? Well, again we do not know for certain but we can use our imagination legitimately, and I think we can see that probably man when out hunting killed some female animal with its young beside it: the young refused to run away from the mother's body and the hunter found that they were docile little things and perhaps picked them up and took them home for his children to play with. Perhaps they were goats and they grew up and came to maturity, and gradually man found the advantage of having a milk-producing animal among his belongings. In this way came about the domestication of animals. How man became a shepherd and a dairyman is not written in the pages of history, but we can easily work it out for ourselves. It was probably the woman folk who domesticated them in the first instance. Thus we get mankind with his flocks and herds rising to a higher and more comfortable stage of existence. In this second era other phenomena arise. We get the possibility of carrying the separation of employments still further, but on the whole it is still a difficult stage of existence. The hunter had been a

nomad: he had wandered about from place to place. He had no fixed abode: he had to go where it was easiest to find the game he wanted. He had to find the pasture and the water supply necessary for his flocks and herds and his retainers.

Then another stage opened out—the agricultural stage. Mankind noticed that there were certain forms of vegetation which responded to care and attention, and found that cereals and things of that sort, if carefully tended and treated, improved. But in order to get the maximum of improvement it was necessary to remain for a time on one spot, and so we get land settlement. It was discovered that the tending of flocks and herds worked in very well with agricultural life, and so man became a farmer. Under these new conditions some very striking and interesting facts came to man's knowledge. He found that some land would produce much better crops than other land, that certain crops would grow well on one kind of land, and that another crop would not grow nearly so well—that different crops required different surroundings. He therefore began to collect masses of information; he began to see the advantage of land ownership. At first ownership was in the community, but as time went on what we call rent became evident—land ownership and rent. You have there three very important stages in human history.

Then a fourth came—the age of industry

and commerce. That was the fourth great stage through which the human race has passed. As soon as we get a fully equipped world—industry and commerce, agriculture and pastoral work, hunting and other activities going on together—we get a world that is teeming with economic interest.

It is interesting in passing to note that although the human race has passed through four stages we can at the present day see those stages almost in their primitive form—not quite, but almost. For a long time mankind was quite unconscious of any economic laws. Men were beset with difficulties and they used their intelligence to grapple with them. They overcame them more or less while they were unconsciously economists. Then as the world gets along man becomes a semi-conscious economist. He begins to see that there are things worth studying, that there are natural sequences, that causes lead to effects. He notes all these things down and gets a body of knowledge which pays him to study, and then we come to the time when he gets fully conscious and sees that it is well worth while to study these things. It is perhaps not easy to fix a time when people became fully conscious of the value of economic study, but perhaps we may put it down to the end of the 17th century. There were two great events in our own country at that time—the foundation of the Bank of England and the re-coinage, the one occurring in 1694 and the other in

1696. In the previous century a great London merchant, Sir Thomas Gresham, had noticed one of the laws affecting money and currency. The law is still called after his name. It was definitely stated and its working was more or less perfectly understood. But we are quite safe in saying that from the end of the 17th century men have been conscious economists. There had, before that time, been various fiscal and economic policies, as we shall see.

SAVING OF MONEY AND THE RIGHT TO INTEREST.

Chapter II.

IN the previous chapter we saw that mankind had passed through various stages, and that in connection with each of these stages, even the most primitive, certain interesting economic phenomena arose. Thus man had to tackle from quite early times economic difficulties and problems. He was an unconscious economist; he did not know that there were economic laws. It was to take ages for him to realise that there were sequences from which laws could be formulated, and that if he acted in consonance with these natural laws he would benefit, if he acted against them he would suffer.

SPECULATIONS AND THEORIES.

As soon as these things began to be noticed people began to speculate and to theorise on them. Men settled in communities and became more civilised, and this naturally led to theorising on various points.

If we study the old Greek Philosophers we find that their speculations are mostly in connection with political constitutions;

their quest is to find out what is the best education for the man of citizen rank. That does not affect us very nearly, but when we find that in their speculations they began taking notice of the material side of life, these speculations assume a new interest for the economist. We find them, for instance, not considering man as a producer but as a possessor of wealth, and they began to consider wealth from a rather startling point of view. They did not consider wealth for its own sake; they did not esteem wealth because it was wealth, as so many people in the present day are apt to do, but they considered wealth from the point of view of the purposes that it may serve, not indeed the individual owner, but the community of which the individual owner is a member. And in these speculations it is taken for granted that the individual will be subordinate to the State. These philosophers considered that it is only through the State that a man's powers of individuality and character can be most full developed. Thus in these old philosophies the State claims the controlling authority over every sphere of life. And these philosophers in their speculations seem to take it for granted that institutions and laws have an almost unlimited efficacy in perfecting the individual and the community. That is an exceedingly interesting part of their teaching, and it is worth noting because it opens up new views. Two main points are of special importance because they have some lessons for the present

generation. One of them at any rate affects us very considerably.

A STANDARD OF VALUE.

We have seen that certain economic phenomena arose and that as soon as people had got into separate employments and there were exchanges between people exercising those separate employments they found the necessity for something which they could not quite understand. Eventually, however, they evolved a standard of value, and got a medium of exchange; that is to say they invented a system of money or currency. Various things have been used for money and currency, but mankind gradually came to the conclusion that the best form of money and the best standard was one of the precious metals. As soon as mankind saw the possibility of storing value under this new method and was able to accumulate wealth in a way that was not possible when there were only food stuffs and animals available; that is, as soon as it was possible to accumulate money there emerged a number of exceedingly interesting things which presented new problems. The fatal policy of borrowing began. There would be a man who had accumulated some wealth; and another man who was hard up. The latter goes to the man of wealth and says: "Lend me so much, I am in difficulty." Very shortly after this dangerous policy of borrowing commenced it was found that the man who had accumulated wealth and was able to lend,

obtained a new kind of power. A credit or a loan conferred power; a debt was apt to sap a man's independence and make him weak. It was discovered that some men are thrifty and some men are not thrifty; that the thrifty men become accumulators, and the wealth they accumulated served numerous useful purposes. The people who were thriftless began to take a much lower position in life because their thriftlessness left them with no margin to fall back on. The same thing occurs today under very different circumstances. It is never easy for some people to exercise thrift, but at no time in the world's history surely has the need for the exercise of thrift been so great as it is to-day when at the end of a great war this country alone is burdened with £8,000,000,000 of debt—a dead weight which has a good deal to do with the existing state of affairs in the industrial world.

Here then is a new problem—debt. A very dangerous position arose, and philosophers and thinkers began to speculate about it. These speculations can be studied in the ancient writings, for most of them are now translated. For the present purpose the economic speculations in these writings are enormously interesting. There are many lessons we may learn to-day from the difficulties which faced the world in those more primitive times when conditions were less complicated. It can be seen what happened under simpler conditions, you can note where

there were successes and where there were failures: and the policy pursued may give us a very valuable clue as to what to adopt and what to avoid under the more complicated conditions of the present day. One is the better for making use of experience. This country has suffered very much recently from cleverness not assisted by experience and knowledge.

THE PHENOMENON OF DEBT.

The ancient Indian writings deal with this phenomenon, debt. It was found that a creditor might say: "I will lend you so much, but where do I come in? I must charge you for the use of this money or for the use of this wealth that I lend you." And it was found that this gave the creditor a great deal of power over the debtor: he was able to oppress the individual, and the Indian philosophers began to lay down rules about what should happen in connection with money lenders. Suffice it to say that so far as they are concerned, the general position was that only a very wicked person would have anything to do with usury or profit out of the loan of money. The Greeks also began to speculate on this, and if we read Aristotle's "Politics" it will be found that he examines some of the problems in quite a modern spirit, there is indeed a great deal in Aristotle that is of great value to-day. Aristotle takes up this question of usury—payment for the use of money—and he works it out in a very inter-

esting way. He says: "If I lend a man a farm or an orchard, or a flock of sheep, or a herd of cattle, and if the man has this property of mine for a certain length of time, if he is careful with it, and if he does what is right in connection with it, there will be a natural increase: there will be fruit from the orchard, there will be the produce of the farm, there will be an added number of animals that are born in the flock or the herd." And he says "Clearly, if any of these properties belong to me, and there has been this natural increase, part of it ought to belong to the lender, though part is clearly due to the borrower for the care he has taken of it. But, if I lend a man metal money, I am up against a different proposition. Metal is a sterile substance: it does not produce, and therefore if I exact interest on a loan of metal I am exacting something which is unnatural." This is his broad teaching on the subject.

It is worth while to trace what happened as to teaching and practice on this question of money loans.

JEWS AND THE ROMANS.

The Mosaic system contains an economic theory. The part that is of interest here is what Moses says about borrowers and lenders. If you read the Book of Deuteronomy you will see that Moses lays it down quite distinctly that no Jew shall lend to another Jew and exact usury. He is just as distinct as Aristotle although he does not explain why. But a Jew

may lend at usury to a Gentile. Now that exception has had momentous effects in the world's history. Moses—or whoever made that exception—could hardly have conceived what effect it would have. That exception proved of very great utility to Europe when Europe settled down in the Middle Ages, and a developing trading community needed borrowed money and capital. Always remember that Aristotle allowed no exception.

It was the Romans who gave us the modern conception of interest or profit on loans of money. The word is Latin. The Roman legists did not like the idea of profits on loans of money, but they thought out a way of getting round the difficulty which raised an obstacle in the way of developing trade and commerce. They conceived of a man who was a debtor and defaulted. In consequence of the default the position of the creditor is rendered worse to the extent of the default. The phrase they made use of was "id quod interest": that which was between parties. This gives us the foundation of the modern conception of the subject. We adopted the word, and we say interest instead of usury at the present time.

Europe began to settle down and we get, as the Middle Ages develop, a unified system of Church and State. The Bishop of Rome at the head of the Church; and a unified political system with the Emperor at the head.

DEVELOPMENT OF A LEGAL SYSTEM.

This system of Church and State, which in theory embraced the whole of Europe, was responsible for the good government and control of the people under its sway, and it began to develop a legal system. On the civil side the old Roman law was continued. The Church began to build up a corpus of law which is full of many fascinating points. Of course a good deal of it is spiritual and religious. But the Church soon began to claim that it had control of all causes which would affect man's spiritual well-being, man's hereafter; there was very little that escaped the meshes of the Church. If a man told a lie he was endangering his soul's future career: if he stole he was probably going to hell. That was the teaching in those days, and the Church tried to claim that all those causes which affect man's spiritual well-being should be judged by Church law in Church courts and, as those of you know who have read mediæval history, there was a long struggle between the Church and State in this country; this was the cause of the trouble between Anselm and William II, and between a'Becket and Henry II. But the main bone of contention was the Church courts and their jurisdiction. It would take too long to tell the whole story. The interesting point here is that the Canon Law contained economic teaching and economic regulations. The dangerous position created by debt brought money loans and payment of usury or interest

under Church jurisdiction, at least so the Church considered, and the Church by the 12th or 13th century had laid it down definitely that the exactions of usury or interest on money loans was contrary to the will of God and so sinful that no Christian man in communion with his Church could engage in this kind of business. They followed Aristotle absolutely. They ignored the exception made by Moses.

JEWS THE WORLD'S FINANCIERS.

Now what was the effect of that? Very many people are apt to criticise the Jews and call them hard names because of their dealings in finance. The "Merchant of Venice" is typical of the feeling against the Jews, at one time at any rate. But what were the facts? As Europe settled down and we get a more or less stable government—a more stable government than had ever existed since the Roman Empire—trading developed and business increased and there was need for capital in business. A man wanted to borrow in order to increase the area and extent of his operations, but he could not go to a Christian and borrow. A Christian could not be a money lender, and if it had not been for that exception made by Moses, the Reformation might have come very considerably sooner than it did, because Europe must have burst away from the trammels of the Canon Law or else have been content to see trade and commerce strangled. That is very interesting.

The one trade, the one activity that was left to the Jews under mediæval conditions was that of the banker or money lender, and for generations if not for centuries, the Jews exercised this profession. They were an exceedingly useful body in the community. There were good and bad. The Jew might go for his pound of flesh, but we must remember that unscrupulous people often broke their bond with the Jew. There were faults on both sides, but I think the fairest thing to say is that the Jew performed a very useful function at a time when business men could not have done without him. And what were the consequences? Financial dealings were left to the Jews. They became the world's financiers and have remained so ever since. The great international and cosmopolitan financiers to-day are Jews, and you can trace that fact right back to Moses. When the Canon Law was developed, the Church did not make any exception; thus so long as that stood no Christian man could exercise the functions of a banker or money lender.

THE NEED FOR CAPITAL.

This lasted for a long time, and it is worth while looking up one or two points about it. Looking back from our own day we are apt to say how stupid these people were, of course it is right to pay interest on a loan of money. But you have to consider what the conditions were under which these regulations were adopted. In those old days trade was very

restricted; there was no need for the lending of capital for carrying on an extensive trade. That arose during the Middle Ages. Loans were not wanted for business purposes; there was not enough security in the world for business to develop up to that point. Business in the ancient world was mainly carried on by the slave or servile class and became very much degraded. People who wanted to borrow in those days were people who were down on their luck, people who were hard up, people who had had misfortune, thus the speculators, the theorisers, and the Churchmen argued in this way: if a Jew or a Christian takes advantage of a man's misfortune to make a profit out of him he must be a bad lot. There was something to be said for the teaching. "You are taking advantage of another man's misfortune." But as soon as Europe began to settle down and trade began to develop, if I could borrow a sum of capital equal to my own and by this means more than double my transactions and greatly increase the area of my business and make a much larger profit, the former line of argument was inapplicable. It was to my advantage, and it was to the advantage of the community too, that loans of money for trading purposes should be available, and if there was a man who was thrifty and was able to lend money with which to produce more profitable results, clearly, as in the case of the orchard, or the flock of sheep, or herd of cattle, part of the increase of the profit was due to the man who had exercised thrift and had

been able to lend the necessary capital.

ORIGIN OF THE BILL OF EXCHANGE.

But there was a long fight for it. Some very interesting things occurred. You have heard about the persecution of the Jews. The Jews might be suddenly ordered to leave a country. A whole community or an individual who had come across the Government would be ordered to withdraw, that is he was exiled; and sometimes these people suffered serious losses by not being able to carry their wealth with them. After this had been going on for some time the Jews invented a system for preserving their property. This system has developed into the modern Bill of Exchange. A Jew might make over his property to a man who would give him a writing. That writing would be nominally of the value of the man's property in the land to which he went. As soon as people began exercising international trade, or very soon after international trade began on a big scale, it was seen how very convenient this system would be in connection with trading transactions. But in connection with a Bill of Exchange there is discount or interest involved, and as soon as traders began using these convenient things the Church was down on them because they were breaking the law which said there was to be no such thing as interest in money transactions. But these instruments were so convenient that lawyers came on the scene, and the lawyers argued that the interest or discount involved in a Bill

of Exchange was not a payment for the use of money, but payment for services rendered; that the money was transferred or wealth was transferred from one country to another and the interest paid on it was a payment for this service. Thus Bills of Exchange were gradually exempted from the process of the Canon law.

ADVENT OF THE RELIGIOUS BANK.

One of the ways in which the mediæval Church got away from the difficulty that no Christian could be a banker is of extreme interest. There were a number of people who were necessitous—down on their luck—who needed helping. The Church laid it down that it was the duty of every Christian to help the poor and needy. It was not a matter of choice; it was a matter of lawful debt, "debitum legale." Thus the Church itself took measures to help the unfortunate. And its well-to-do members were stimulated to assist with money those who were hard up. In order to regularise loans of money and keep within the four corners of the law, religious banks were established. They called these banks "Montes Pietatis." Here we have the origin of the continental pawnshop —"Mont de Piété"—the place we go to if we happen to be on the Continent spending a few weeks holiday and find we want a pound or two to purchase a ticket to get home. The pawnshop is the lineal descendent of the "Mons Pietatis."

What were these religious banks? They

were places to which people went and obtained a loan which the Clergy who managed the banks lent to people to tide them over a period of trouble. Having organised this banking system, they had to have some sort of office, and there were sundry expenses for management. These simple charges for the use of the money were allowed, it was not a case of interest, but merely a small charge for the cost of running the system. As soon as an institution resembling a bank was opened where money was available under certain conditions there was very soon a great deal of business for that bank to do. Numbers of people wanted loans. In other words the amounts of money left there by the faithful without fee or reward were not sufficient to go round, and the people who were running these banks said: "We have not got enough money to go round; there is much want and destitution in the world, we had better try to get extra subscriptions." They whipped round but did not get enough, and then they tried to get larger amounts deposited with them by paying a little interest for the use of the money. That, of course, looked like breaking the law altogether. It was, however, argued that if you take a sum of money out of your business and put it into this bank it is only fair that we should pay you something for the use of it because it had been taken from lucrative employment. Thus a fiction was used by means of which these religious banks were able to attract deposits. The fiction was that

money was taken from lucrative employment and so it was only fair that there should be compensation. Strict Churchmen, however, did not like this at all. These banks broke both the spirit and the letter of the law, but they were allowed, and their establishment opened the flood gates, because there was the argument that if it was right to have banks of this sort to assist the people who were down on their luck, surely it was only common sense that there should be secular banks to assist genuine business operations: and thus came about the establishment of "Montes Profani"—secular banks. But they were established and worked for a long time under the fiction that the money available in these banks had been taken from lucrative employment, therefore those who lent it were entitled to payment for it.

LUTHER AND CALVIN.

Until the Reformation the Christian world was bound by the Canon Law which, among other things, said that no Christian could loan money at interest. When the Reformation broke out, an appeal was made to Luther as to whether it was right to exact usury or interest on loans of money. Now Luther had been brought up as a Monk and he knew all the subtleties and all the learning of the Church. He had been trained to get round difficult corners. The Church lawyers always got round a difficult corner by means of a fiction, so when this question was put to

Luther who had been trained in the strict letter of the law, the only thing he could think of was to get hold of a fiction to meet the case; thus the answer he gave was this: "It is true that payment for the use of money is displeasing to God, that is perfectly plain, but under existing conditions it must be allowed: its necessity is one of the consequences of man's fall from grace."

There was another reformer who was a much more stalwart type of man than Luther, and that was Calvin. The same question was put to Calvin, who gave an answer that solved the difficulty at any rate for those who broke away from the Church of Rome. Those who remained in the Church of Rome were still bound by the Canon Law. Calvin, being appealed to, argued it out in this way. If I own a house and don't want to live in it myself, and a man comes to me who does want to live in it, what do we do? We arrange a rent. The man says to me: "If you will let me live in your house I will pay you so much a year for it," and we come to terms. Now, said Calvin, supposing a man has got a piece of ground on which he could build a house but he has not got the necessary money, and he comes to me and I lend him money, and he builds a house and lives in it, where is the difference between paying rent for the money that enabled him to build the house and paying the rent of the house which belonged to me? This common sense teaching showed

the foolishness of the old teaching, and from that time forth, although there were still many obstacles in the way, there was a growing freedom in the use of borrowed money.

USURY LAWS IN ENGLAND.

In our own country the first law on the subject of usury was passed by King Offa, who was a contemporary of Charles the Great in the 9th century, and usury laws remained on our statute books until the year 1854, honoured for the most part rather in the breach than in the observance. They were finally repealed in 1854, as a result of the discussion occasioned when Jeremy Bentham wrote his celebrated letters in "Defence of Usury." It was seen that it is far better to leave the question of rates of interest and kindred matters to natural economic laws. It may, however, be interesting to note that during the discussions that have taken place as to reconstruction in this country, a reconstruction necessitated by the war, it has been seriously suggested in more than one quarter that Parliament should fix the amount that can be paid for money loans or the amount of profit that can be made by a business. This shows that this old teaching has effected us right down to the present and is likely to affect us for a long time yet, and it is quite important that we should realise why it is that people formed the views they now hold as to payment of interest on money loans. Many people object to it. There are many reformers who

tell us that it is wrong for anybody to get interest on his savings. It is very questionable if you carry on a pettyfogging moneylending business—lending to people who are down on their luck. Under such circumstances there is something to be said for the condemnation. If a friend comes to me and says: "Lend me £100 because one of my children is to have an operation and without this operation it will die." If I charge my friend interest for the loan under such conditions I am a cold-blooded ruffian; but if a man comes to me and says: "I have got £10,000 in my business; if I can get another £5,000 I can very considerably increase my business, I can add to the number of people I employ, I can improve things all round for them and for myself, then, clearly, if I am able to help him to get that increase of capital; if by my own thrift and self-denial, instead of throwing my money about I lend it to him to enable him to do this, the old argument of Aristotle as to a farm or an orchard stands good; money has become fruitful. To lend money under those conditions is amply justified under modern conditions and I am entitled to accept interest on my loan.

THE NATURAL AND UNNATURAL.

There was another point in connection with these speculations which affects us at the present moment. Aristotle dealt with the subject of economics, and pointed out that economics has to do with the maintenance of the home; that is to say, has to do with

providing those things which are necessary for the maintenance of the man and his family and his dependents. It included the making and the spending of the necessary income, the production and the consumption of the necessary wealth. He makes a clear distinction between earning the necessary income, and giving up one's life to money making. The making of money, the earning of income, the running of business, and making profits he called chrematistics, and he divided it into two parts. There is the natural and the unnatural. To put it into our own language, his teaching was this, that in our business, in our making of money, in our gaining of an income, in our accumulation of wealth there is a part that is natural and right; but if a man gets carried away by greed and goes on making and accumulating more money than the standard of life that he sets out for himself warrants, then he is exercising an unnatural function. I think there is a good deal for us to learn to-day from that. One of the crying troubles at the present time, one of the things which has caused to a great extent the unfortunate state of affairs we are suffering from socially is the greed of the individual, and perhaps national greed too. Thus the teaching of Aristotle is very much to the point. For it is time that people realised what they were taught when in our Schools and in our Universities, that a man is quite justified in striving to work for a position that will enable him to develop his

natural characteristics and his natural talents, so long as there is any part of his nature which is not fully developed, the development of which would be of benefit to him and the community. He is justified in trying to make the necessary wealth to enable him to develop that side ; but when he has made sufficient to enable him to live up to that point, if led away by greed he makes up his mind that he is going to give his life to accumulating money, then that procedure is unnatural unless there be some higher motive, and he is wrong in doing it.

There is a great deal in the old world teaching which is very pertinent to the present state of affairs. The huge accumulations by individuals in the modern world, which are more frequently seen perhaps on the other side of the Atlantic than here, are to a great extent unnatural, and it would be well if society realised it, so that when the average man has accumulated up to a certain point he should have strength of character enough to say "I will make way for somebody else."

NEW TRADE ROUTES AND POLICIES

Chapter III.

FROM about the year 700 to the year 1300 or 1400 is the period which is called the Middle Ages in this country. The 14th and 15th Centuries are very interesting centuries—centuries of transition. Then with the opening of the 16th Century there were new trade routes, new countries, new continents made known which we in this country have been taught to look upon as marking the commencement of the modern era.

The Middle Ages contain much of interest. There were 300 years—from about 700 to 1000 A.D.—when society was trying to consolidate itself. That time is a time of great interest in Europe. There were a number of more or less piratical people who carried their invasions and incursions into various countries. They were known as the Northmen. They harried these islands and made settlements here. They harried Western Europe, and went from those wonderful Scandinavian fjords across the Bay of Biscay, passed through the Straits

of Gibraltar as far as the Levant. These people gradually settled in various countries. From the year 1000 for about three centuries there is a period of chivalry. The whole period is interesting, through the building up of the Canon Law the economic part of which is particularly important. There is also the rise and development of feudalism, and a movement started which led in this country to the enfranchisement of the great mass of the people. The invasions had given great power to certain capable people. The strong man able to hold his own and organise defence became the leader and lord of those who were less capable. The old chroniclers tell us that during these invasions masses of the people in this country became, not indeed slaves, but were attached to the soil, and a number of things had to occur before they could break off their shackles. It is part of the history of our country, but at present we are considering only the economic situation. Thus suffice it to say that these people first of all had to give a certain number of days' work in the year to their lord, at seed time and harvest, sowing times and ploughing times, and in return they had the protection of the lord of the manor. There was labour rent, that is service rent. And as time went on and money began to circulate a number of these services were commuted for a money payment. Then an interesting phenomenon took place owing to a great tragedy that

occurred in this country. About the middle of the 14th century there was a series of plagues, notably about the year 1349, the plague known as the "black death." Large numbers of the population died and there was consequently a great shortage of labour. We all know what happens when a commodity runs short: it becomes valuable, and the price goes up. Wages went up, and then the lords of the manor to whom those money payments had to be made, found it was no longer to their advantage to accept a money payment instead of service.

RELIGIOUS AND SOCIAL MOVEMENTS.

Governments were gradually consolidated, and here another phenomenon arose full of interest. Under the mediæval conception, Europe was looked upon as a political unit. The Emperor—the holy Roman Emperor as he was called—was considered to be the secular head of the unit, and the Bishop of Rome—the Pope—was the religious head of this unit. The idea of nationality scarcely existed. Society was divided horizontally. There were the common people, the serfs, and then the various grades of the nobility—squires, knights, and others, right up to the Emperor and the Pope. As the Middle Ages came to an end we get some great religious and social movements which had enormous effects. The Reformation and the Renaissance, the re-birth of learning, a work carried to a completion by Erasmus and a band of great scholars,

developed a new kind of society; the idea of nationality was strengthened and European society became divided vertically. We get Englishmen and Frenchmen, Spaniards, Flemings, and Germans—a vertical instead of a horizontal division of society. All these different phenomena had their effects on the economic sphere.

If we were to go back to that old Europe we should see a very different place to that we are accustomed to. These islands of ours had different social conditions. The fruit and vegetables which we are accustomed to were in many cases unknown. It was a difficult matter to keep all the animals alive during the winter time. Thus it was the custom when winter was coming on to slaughter a goodly proportion of the animals and salt their flesh for winter food. There was a shortage of grass and other foodstuffs for cattle and sheep during hard winters.

A LEAGUE OF MERCHANTS.

As a large mass of the population had to exist on salt fare for weeks or months there was a great danger to health. A necessary precaution to preserve health was to make use of various spices, and condiments, which were brought from the Far East. There was indeed a considerable trade between Europe and the Far East. This trade was organised and carried on, so far as Europe is concerned, by Venetians. Venice became a shipping centre, and Venetian ships leaving the head of the

Adriatic went round visiting the various ports of the Levant picking up these various commodities coming from the Far East required by Europe. Trading along the Mediterranean, they went through the Straits of Gibraltar and came up to London and Antwerp. There was a southern cycle of trade carried on by Venice and a northern cycle of trade from the Baltic down to London, across to Antwerp and back again, touching at the various ports, carried on by a League of Merchants known as the Hanse League who for a very considerable time carried on the bulk of the trade of north western Europe. These commodities, or many of them, from the Far East were necessaries of life. Europe must have them. As time went on the Mohammedans, Saracens, and Turks became troublesome. By pushing further and further westward they began to take possession of the Levant ports. The commodities coming from the Far East were brought to a great extent on caravans to the road ends which were the Levant ports where the Venetian ships called and picked them up. One after another these ports fell to the infidel. Some people who look for an economic explanation of history tell us that the Crusades were fought not so much because the infidel had possession of the Holy Places, as because the infidel had possession of the road ends and was able to levy a heavy tribute on things that were necessaries of life to Europe. There is some truth in this, but the argument can be

carried too far, and, if carried too far and applied in other directions, the economic explanation of history would take a good deal of nobleness out of life—an element we can ill afford to spare.

EARLY NAVIGATORS.

Things went on decade after decade, century after century, and then came the supreme trouble in the middle of the 15th century. The Turks took Constantinople and had complete control of the then known means of access between the East and the West, and were able to levy a heavy tribute on the necessaries of life. The development of the Turkish power over eastern Europe, with the conquest of Constantinople and their advance almost up to Vienna, had a very important economic world effect.

Europe naturally attempted to break this strangle hold; hence the work associated with the great names of Columbus, Vasco da Gama, Cabot, and certain great Portuguese navigators chief amongst whom was Prince Henry the navigator. What did they do? A great English scientist of the 13th century—Roger Bacon—had conceived that if you sailed westward from Europe you would come to a new continent. Columbus came across a transcript of these notes of Roger Bacon. Columbus persuaded one of the monarchs of Europe to finance an expedition. I am rather proud as an Englishmen that it was an Englishman who gave the initial impetus to this movement.

As you know, in 1492 Columbus finally persuaded Ferdinand and Isabella to lend him the necessary ships and funds, and he discovered the West Indian Islands and then Central America somewhere near where the Panama Canal is at the present moment. But Portugal also had its navigators and they began creeping down the West Coast of Africa. Prince Henry the navigator was a grandson of John o' Gaunt. His mother was an English princess. He started going down the west coast of Africa and to-day if you go down that west coast and land at certain places you will find the stone crosses which these old Portuguese navigators erected when they got furthest south. In 1498 Vasco da Gama came down to the Cape. It is not at all pleasant there in the winter time. He was told that if he rounded the corner, the devil would be waiting for him, but he thought he would take the risk, so he rounded the corner and came up the east side of Africa to the port of Melinde, and there he came across an Arab pilot who explained to him the movement of the winds. During so many months of the year there were what the Arab pilot called trade winds—mausim. This word has degenerated into our word monsoon. This Arab told Vasco da Gama that if he went before the wind he would arrive at India. That was just what he wanted, so he engaged this man and landed at Calicut on the south-west side of India. Thus in 1498 he discovered a new route to the Indies, by which ships

could come round and pick up cargoes free of the Turks or any other hindrance. That became the great Portuguese route to the Indies.

GROWTH OF TRADING POSSIBILITIES.

It is worth while to continue the story because it fits in with our subject. The Spaniards went west, the Portuguese south. Sebastian Cabot, who was a Genoese, came and settled in Bristol and persuaded Henry VII, after Columbus's success, to finance an expedition for him. He and his son, in a little ship, left Bristol and discovered Newfoundland and North America. That is why the English race has been predominant in North America, as the Spaniards and Portuguese have been so predominant in South America. By these discoveries made at the beginning of the 16th century you get a knowledge of the great new continents of North and South America.

The English had done a good deal of coasting trade. They had a long coast line and thus were naturally sailors. Watching these new developments they began to wonder what they might do in the way of getting to India. India was the place that everybody thought would make the countries trading there wealthy. Perhaps there might be a northern passage—north easterly or north westerly—to India. There is in theory, but in practice it is a very cold voyage as the seas are generally frozen up. In Queen Elizabeth's reign a great navigator, Sir Richard Chancellor, tried to find

a northern passage but had to take refuge in the White Sea and landed at Archangel. From there Chancellor and two of his companions went to Moscow and entered into trading relations with the Russians. Those relations have been maintained ever since with the exception of the interlude of the Crimean war and the present war. You see how the world's trade with all its great problems and difficulties was opened up in a comparatively short time. A great impetus was given to it when the Turks took the Levant ports, got to Constantinople and cut us off from the Far East. The discoveries were completed in the 18th century by Captain Cook, who made known to us Australia, New Zealand and those interesting islands in the Pacific, about which he has left us such thrilling accounts.

Here, then, is a very interesting position. Man, a primitive hunter with activities circumscribed, had found himself face to face with difficult economic problems. Now the descendants of that man through activity, grit, perseverance and knowledge have made themselves familiar with all the habitable globe. Man founds colonies, enters into trading relations, finds out where various foods and raw materials can best be produced, and where raw materials can best be worked up. From the beginning of the 16th century the possibilities of trade and commerce become practically illimitable; and the possibility opens out before mankind of increasing civil-

isation and the standard of comfort. The whole method of looking at life became absolutely revolutionised.

NATIONAL RESOURCES AND COMPETITION.

Now what was going on in Europe? Society having been divided horizontally becomes divided vertically, the idea of nationality develops, and the idea of national competition begins to grow. An English king wants to be as big a king as possible; a French king is equally keen to push his claims to importance; in other words governments find themselves tempted to carry on what in modern times is called a spirited foreign policy. Now a spirited foreign policy, whether you carry it on in the Middle Ages or in the 20th century, is a very costly business, as our kings, like Edward III, discovered. They wanted revenues to push their ambitious schemes. The revenues of English governments were provided by certain estates, parts of the land area of the country temporarily set aside for the upkeep of the Government. While the Government was unambitious or content to look after its own business and govern the country in a simple way those revenues were sufficient, but when an ambitious king wishes to cut a figure on the continent, the revenues from these royal estates are no longer sufficient. The responsible Government considers how it can produce or secure adequate revenue to maintain a new position and make its weight felt. They turn their attention to the rural

districts: they can get various farm products but these are not much good to them. What they want is money. They therefore look to the towns and find that it is easier to get money from the towns. They consider the cause, and find that in the towns there are certain trades that are carried on by means of money. They look abroad and find that some towns are exceptionally wealthy and are able to supply their rulers with exceptional revenues. Why? Because these industrial towns where manufactures are carried on produce more wealth than results from the production of raw materials. That was the experience in those days. This country was mainly agricultural, and owing to our sheep rearing it was a big wool producing district. Our wool used to go over to Flanders to be worked up into cloth; and some intelligent member of the Government suggested that although the king got a good deal of revenue from the wool that was exported, if the cloth was manufactured here there would be a great deal more value in small bulk, and so he would be able to raise more revenue. So our kings began giving their attention to the fostering of industries, not because they loved industry or commerce for themselves but because they wanted bigger revenues. This led to a new policy being inaugurated, and this is called the Mercantile System or Policy of Power. The idea of nationality had come into existence, and a policy was required which would make the

nation strong, independent and self-sufficing. The statesmen of Europe began to give themselves up to framing a policy which would make their several countries independent and self-sufficing, and for this purpose they began to frame new laws. That policy became full fledged in the time of Oliver Cromwell. The Protector had a good deal to do with perfecting the system. A solid corpus of laws was framed especially to make this country economically strong. There were navigation laws, poor laws and others which make up this policy of power. It is exceedingly interesting for us to read and study and know how all these developments came about and the effect they produced when we in our turn are reconstructing our industries and institutions after a great epoch-making conflict.

Some of the theories that are put before us and some of the policies that are suggested show that there is a hankering after a return to certain sections of this Mercantile Policy. Some of these suggestions may be good, some of them may not be so good; but if we know what happened in the past and how this nation fared when they were the practical politics of our ancestors—what was adopted and what was discarded and why they ceased to exist, we shall be on our guard and know what to welcome and what to reject. When we find ourselves in a tight corner and we are appealed to to use some of these means to render the country strong and independent one has

got to be careful to see that the policy, so far as it is adopted, shall be a policy which shall in the main tend to the benefit of the country and not to its detriment.

THE CURRENCY PROBLEM.

For this purpose it is necessary to study history—to know history as well as economics; in fact you cannot know too much history when you are discussing and considering these questions.

Europe, prior to the discovery of America, had developed its trade up to a point; it had developed its currencies too up to a point, but trade was circumscribed; a certain amount of the circulating medium was sufficient to keep things going smoothly. Men had not yet learned what we know, that it is possible to have too much money in circulation, and that sometimes the inconveniences caused by too much money are worse in a State than the inconveniences caused by too little. You need just enough money to circulate your trade, no more and no less. That is the ideal to aim at.

In this country the currency was quite simple. The old English method was to take a pound of silver, strike it into 240 parts, and call each of those parts a penny. There were 240 silver pennies to a pound weight of silver. For many purposes of course these silver pennies were too big, and practical people simply took a pair of shears and cut the silver pennies in four parts and called them four things or farthings. That is the origin of our

farthing. Country places carried on their transactions by exchanges or barter, but in the towns there was a simple currency which was sufficient for the purpose of the people. Edward III introduced new coins, but these new coins were only utilised in the centres of commerce.

America was discovered and the Spaniards and the Portuguese had a definite colonial policy of their own. To the Spaniard or Portuguese a colony was to be a source of wealth to the mother country; it was not a case of developing a colony and endeavouring gradually to get there a population prepared to carry on the old traditions and live under the old flag. That was the contribution we were destined to make in a later century; but to the Spaniard or Portuguese the colony was there to be squeezed in order to get all possible wealth from it. Silver mines were discovered and the galleons of Spain began to bring cargoes of silver to Spain; Spain was flooded with silver and when it could not retain it all, it began to spread over Europe. Values and prices were all upset and so extraordinary was the situation that the people wondered what was happening. It was seen that Spain was superficially at any rate, prosperous; prices were going up and people were making lots of money, as we say. It was decided that the cause of the wealth was the inflow of the precious metals. One of the objects of the Mercantilists who were framing

the policy of power was to endeavour to make this country wealthy, independent, self-sufficing.

Here in England only very small quantities of silver and gold are found. If you go to Edinburgh and visit the Castle and see the old regalia of Scotland, you will find that the crown and the sceptre were manufactured out of Scottish gold. But the supply of gold from the mines in Scotland was not enough to provide a gold standard for circulation. The precious metals for currency purposes had to be imported.

THE GRESHAM LAW.

What was the Government to do? Ours was not the only Government that felt the pinch. Other Governments too felt it. They had to frame some policy by means of which the foreigner would have to pay us for our exports in metal, and so it began to be taught by these Mercantilists that the country should export as much as possible and import as few goods as possible in return, so that the balance of trade, as it was termed, should be received in the precious metals. At first there was some excuse for some such policy. The country had not sufficient of the precious metals to circulate its goods and trade under the new conditions, thus the Government was tempted to frame a policy to attract the precious metals, to give more of the circulating medium and make the country rich. Following

up this line of thought, these people finally fell into error and began to preach that wealth consists in precious metals; that you must have precious metals no matter what happened; that the country that has plenty of the precious metals is a wealthy country, the country that has not is poor. They carried that argument too far; they confused wealth with gold and silver. Then some curious things happened, and people began to feel the effects of the new conditions and experts noted one great economic law connected with the currency which is of considerable moment to us at the present time.

When the flooding of Europe with silver took place, the Tudors were on the throne, and not being able to get sufficient money, it was suggested that they could double the coinage if they called in all the silver and put in sufficient alloy with about half the amount of silver. Such a policy is a debasement of the currency. Henry VIII tried to make the currency go further by debasing it. Edward VI did the same, and then Mary. Thus when Elizabeth came to the throne the currency of the country was in a shocking condition. There was in London then an exceedingly able business man—one of our first great financiers, Sir Thomas Gresham. His name is still commemorated in London in Gresham College and Gresham Street, in the centre of the city. Gresham built the first Royal Exchange, which was opened by Elizabeth as

shown in the present Royal Exchange by a fresco. This Exchange was burned down in the early part of last century and the present building was put up to replace it.

Queen Elizabeth or her Government decided to put the coinage right if possible. With the assistance of Drake and other sailors, quantities of silver were more or less honestly brought into the country. A most charming sketch of what happened in those days is given in Froude's "English Seamen of the Elizabethan Age"—a very fine example of English prose, which tells the story of how Drake and these other men captured the Spanish treasure ships and brought them into our ports. It also gives many other useful bits of information much more to our credit perhaps than the way we took the treasure ships. At any rate, Elizabeth wanted to put the coinage right, and so from the mint they began to issue full weight coins.

METAL AND PAPER MONEY.

The theory was that people would much sooner have full weight than debased coins. Therefore if you put them into circulation the currency would soon be restored. But to Sir Thomas Gresham, who was watching this with great interest, the surprising fact became evident, that no matter how much new coinage was issued from the mint, it somehow or other disappeared from circulation and the old and worn-out coinage and the debased coins remained in circulation. Sir Thomas Gresham

set to work to think the matter out, and he noticed a tendency which is now known as one of the laws of currency and is called Gresham's law. The tendency is that bad money will usually drive good money out of circulation. To us at first it seems rather curious, but it is a great economic law which is well worth knowing a good deal about. It can easily be seen how it operates by watching everyday events. What do you do with coins in your possession? For instance when you get into a tram and have to pay a twopenny fare. You put your hand into your pocket and bring out four coppers two of which are just issued from the mint. Which do you give to the conductor? The two which have been longest in circulation and you keep the new ones. That too is exactly what the conductor and everybody else does.

A remarkable instance of this happened during the war. A man was going home one evening and took a 'bus. The fare was a penny. He brought out a penny but the conductor said "I cannot take this, we are not allowed, it is a French penny." The man said "I suppose you get a lot of these French pennies now from the soldiers; what do you do with them?" "Well," he said, 'I pass them on to some one." The man then pulled out a handful of coppers and the conductor counted him out eleven pennies which on arriving home he found out to be eleven French pennies! There was a practical example of Gresham's law.

That law has certain applications. You can see it at work where you have one standard metal and some of the coins have been rubbed and deteriorated by wear—the old coins drive the full-weight coins out of circulation. You can see it where you have two metals in circulation and the ratio between the two is not properly fixed. And you see it where there is inconvertible paper money circulating with metal.

Thus by the reign of Queen Elizabeth a great part of the world had been made known for trading purposes, and trade was being opened up by new routes; the currency was being adjusted, a bigger volume of trade requiring more money. There was more metal available, but owing to the fact that it was either improperly or unequally distributed, difficulties arose.

THE SPANIARDS AND DUTCH.

The Portuguese having discovered the sea route to India, opened it up and began building big ships in Portugal. These ships they sent round the Cape of Good Hope and valuable cargoes were brought back to Lisbon. The Portuguese were very proud people. They disdained retail trade. They did not mind building big ships and handling valuable cargoes, but these cargoes had to be distributed over Europe, and the Portuguese would not have anything to do with such retail dealings. The Dutch, however, in their small galliots ran down to Lisbon and did the distributing

trade. Antwerp rose to great eminence and became a very wealthy city. As history went on Spain and Portugal came under one Crown, Philip II being the ruler of the Peninsula and and also of Flanders. Philip II was a very religious man and very bigoted. He set himself to make everybody profess his form of religion. He persecuted the Moors and drove them out of Spain. They were the men who carried on industries and were a valuable asset in the population. He afterwards persecuted the Protestants in Flanders during that horrible time when Antwerp suffered at the hands of the Duke of Alva.

In order to enforce his policy Philip II ordered that no Protestant ship should be allowed to enter Lisbon; that was ordered to prevent the Dutch carrying on this retail trade. The ablest of the Dutch, owing to the persecution of Alva, had been driven into Holland; they had made Amsterdam their head quarters. Amsterdam was taking the place of Antwerp, and the Dutch were now faced with ruin because the Spanish King had said he would not allow heretics in Lisbon. The Dutch being a very fine, stalwart race set to work and built big ships. In these they sailed past Lisbon, rounded the Cape, and beat the Portuguese in the Far Eastern markets. They brought valuable cargoes of Eastern products round the Cape, sailed past Lisbon again and right up to Amsterdam. Amsterdam became the London of Europe, the great

distributing centre. Those of the merchants who wanted to carry on international trade were obliged to have offices or agents in Amsterdam. Amsterdam was the centre of a small State with a small currency, and that currency debased. The Dutch had one city flooded with all descriptions of currencies—English, French, Dutch, and others, more or less debased. You talk about fluctuations in the exchange today. The fluctuations in those days could not be recorded. A man would enter into a transaction on which there promised to be a good profit, but it was carried through with a very imperfect instrument. The currency was then so debased that it often meant that loss or ruin would stare a merchant in the face. Gresham's law was fully at work in the currencies which were circulating in Amsterdam, and the Dutch had to take steps to put things right for they were not the people to leave business to chance. They had the possibility of carrying on a very considerable trade and developing great prosperity in and around Amsterdam, but found their trade jeopardised because of the currency. They did not sit and lament as some people are doing today, but set to work and found a remedy, and the remedy was a very good one. It is perhaps not applicable under present conditions, but what they did is well worth knowing; and the fact that 300 years ago, when there was trouble with the currency and exchange, people with very little experience to

go back upon were able to tackle a very thorny subject and get it right, should be an inspiration to us to drop our petty jealousies and get our exchanges right so that trade may flourish and unemployment be mitigated.

EARLY DIFFICULTIES AND HOW THEY WERE MET.

Chapter IV.

IT has been seen how the capture of Constantinople in 1453 created a barrier between trading operations from East to West, and that as a consequence various commercial countries looked abroad to see if it was possible to find some way of surmounting those obstacles. The Portuguese coasted down the African coast and found a new route to India which saved the overland route and the trouble created by the presence of the Turk in the Levant Ports, in Constantinople and almost up to Vienna. The Spaniards got across to Central and South America. The English, led by Cabot who was originally an Italian, got to North America and later on, under Sir Richard Chancellor, in attempting to find a north-east passage to India, they found the White Sea and, Chancellor continuing overland to Moscow entered into what proved to be very valuable trading relations with Russia. That work of opening up new trades and new countries was continued, and in the 18th century there was a very remarkable mariner, Captain James Cook, who completed our knowledge of the possible

commercial trading countries, by making known Australia, New Zealand, and the Islands of the Pacific. The trade routes have been completed in our own time by the construction of the Suez Canal, opening up more effectually the old trade route between East and West, and more recently still by the construction of the Panama Canal, severing the two parts of America, the North from the South, and opening up big possibilities for the further development of the world. What the Panama Canal can accomplish will be realised by the trading community within the next few years. Between New York and San Francisco and London and San Francisco the distance by the Horn was almost the same, the difference being only 200 or 300 miles. If you look at the map you will will see how the distance between New York and San Francisco has been diminished by the construction of that canal. It brings the two sides of America very closely together, and that is going to have an immense effect during the next few years.

A CORPUS OF LAWS.

The opening up of these new countries and the enormous extension of the possibilities of trading, beginning in the 16th century, had great effects on the world. The Mercantile System or Policy of Power was extended by certain European governments to meet the new conditions. That policy had as its aim to make those nationalities self-contained, self sufficient, rich and powerful. So far as this country was concerned this Policy con-

sisted in a body of laws, regulations and customs which were well calculated to assist in the development of a great colonising and trading nation. For shipping there were the Navigation Laws, the first of which was passed in the reign of Richard II, and the policy culminated in the great Act of Oliver Cromwell which continued in force down to 1849. These navigation laws were considered to be our maritime charter making us supreme on the seas. Adam Smith, the first Englishman who published a great work on economics, said that these Navigation Laws were so wise that one would have thought they had been dictated by Divine wisdom. At any rate they had an immediate effect in building up our shipping interests.

Then there were the Poor Laws. Under the mediæval system, the poor, the oppressed, the sick and the afflicted were attended to by the monasteries. With the sweeping away of the old system, monasteries no longer existed; they were part of what had been discarded. Thus when the Tudors had settled accounts with the old system they found themselves faced with the great difficulty of how to tackle the question of the poor and the sick. Under Elizabeth there were attempts to settle this question, and we get the foundations laid of our great Poor Law system. This has done much to prevent troubles which undoubtedly would have had disastrous effects on this country if the wisdom of the statesmen of

Elizabethan days had not laid those foundations so wisely and so well. Then there were Labour laws and Corn laws the latter intended to make this country self-sufficient in its food supply. Thus gradually there was built up a great corpus of laws and a great policy framed to make this country strong. The greatest figure connected with the policy in this country was Oliver Cromwell, one of the greatest men that this or any other country has produced. In France the great figure connected with it was Louis XIV's minister, Colbert.

That it was a great and a wise policy for building up there can be no doubt, but neither Cromwell nor Colbert were foolish enough to hold that the policy which was good for building up, would be a policy to be maintained when the end had been achieved. Our greatness as a country is to a great extent due to the fact that whilst as a people we are healthily conservative—using the word in its best sense—we are wise enough to know when an instrument or policy has served its purpose. We begin to look out for a better, and when it is found we have invariably adopted it. In other words we can keep our methods up-to-date.

EFFECT OF SPANISH PERSECUTION.

It is easy to imagine what an enormous influence this widening of the world and of possibilities for interchange of ideas had on policy. The Spaniards and Portuguese were not disposed to carry on small industries and

manufacturing occupations: they were quite content to build big ships, big galleons as they were called in those days, and send those ships out round all the new routes; to the Indies to bring very valuable cargoes to Lisbon. These cargoes, or a great part of these cargoes had to be distributed over Europe. The Spaniards and the Portuguese were too proud to do this retail trade; thus the distribution was left to the Dutchmen who came down in their little galliots to Lisbon, picked up these cargoes and went up to London and Amsterdam, for as already related Philip's policy of persecution had led to the foundation of a new commercial state with its centre at Amsterdam.

Gradually the whole of the international, commercial and trading undertakings of those days had to be settled up in Amsterdam; anyone who wanted to take part in international trade had to have an office or agent there. For Amsterdam in the seventeenth century was the great exchange centre, but the conditions were very different from what they are to-day. Trade was still to a great extent carried on by means of metal coins. The Spaniards were giving their attention to developing the mines in South America. They brought huge quantities of the precious metals to Spain, and these were gradually being spread over Europe. This great increase of the precious metals in various countries completely upset established values.

ORIGIN OF BILLS OF EXCHANGE.

The business people of Europe began to find that business was out of joint; there was something wrong and they did not, at any rate at first, discover the real cause. It is very interesting to see what they blamed, because a new instrument was coming into use in international exchanges, and for a long time paper credits were very greatly misunderstood. It will be remembered that the Jews had discovered a very good method for securing property to individuals or communities. When the Jews were driven or expelled from a given country, as frequently happened in the Middle Ages, it would be very difficult for them to carry their property away with them. Even if a Jew had his wealth in money, metal, or jewels, the position was precisely the same because he would not only be at the mercy of the Government that was expelling him, but also of any pirate he might meet on the road or of the Government of the new country when he got there. He was a bird that could be easily plucked. Thus after experiencing hard treatment on a few occasions the Jews, who were first class business men, discovered a method of getting round this trouble. They invented, or developed what has become our system of bills of exchange. They found they could make over their property in a given country to a person of integrity who would hand them a bill of approximate value, and when they went into another country they

could make use of that bill, thanks to a growing trade. These new instruments were found to be so valuable that they were made use of in foreign trading transactions. They took the place of cash payment which was the practice of the old Hanse League merchants who carried on a big cycle of trade in Northern and Western Europe.

These merchants who carried bullion did not see any necessity for this new-fangled expedient for the exchange of goods. They had always honestly paid for what they had in metal, and received metal for what they sold. Their methods became out of date, and the League came to an end in consequence.

At the beginning of the seventeenth century the business world seemed all out of joint. The old system of values was found to be defective, nobody knew what anything was worth in current money. Wiseacres had been putting their heads together and they said: "It is obvious what is the trouble; the cause of all this fluctuation in trade is the use of a paper instrument instead of giving honest money." That was their decision.

DEVELOPMENT OF BANKING.

Now these Dutch and other merchants who congregated in Amsterdam found themselves faced with a most difficult position. We in this country think that the present trouble with the Exchanges is a new thing. Nothing of the sort; it has existed before. These

Dutchmen found that they could enter into a business transaction which promised to leave them a substantial profit, and yet when that business was carried through, owing to the uncertainty and unsatisfactoriness of the circulating medium, what promised to be a most profitable piece of business left them with loss staring them in the face. The Dutchmen who had very bravely taken up the challenge of Philip II. and had gone out to the Far East to fetch cargoes to Amsterdam for themselves, were not the people to lie down and whine because they had got an unsatisfactory instrument for circulating international trade. They determined to find a remedy. They had no experience to go back upon. The thing was altogether new. They were groping in the dark. What was to be done to put things right? A fairly new thing in Europe had been going on on a comparatively small scale since the 12th or 13th century; and this was the development of Banking. There were bankers and exchangers in Amsterdam up to the 16th century carrying on banking business, but they were usually viewed with grave suspicion. The city fathers of Amsterdam set to work and thought out a scheme to meet the needs of the time. However they were long-headed gentlemen, and they took advantage of the prevalent opinion that the trouble was caused by finance men and their paper credits. Thus they boldly, in the year 1608, issued an ordinance under which all that sort of business

was prohibited. Can you imagine for a moment what would be the state of affairs in London or Nottingham, or any of our big cities if the Government suddenly issued an ordinance that all banking and finance on a credit basis was prohibited from a certain date? But that is what the Amsterdam city fathers did.

Why did they do it? They had got a great scheme up their sleeves. They had decided to establish a great city bank which would undertake the whole of this work, and would take over the whole of the business carried on by these small bankers, and they were going to have the whole of that business in their own keeping. They were going to see that the business should be carried on honestly and fairly. There is no doubt at all that the rulers of Amsterdam honestly intended to found a bank which should be for the benefit of the commercial world, and would secure to Amsterdam the whole of the settling business of the commercial world. They did not scheme to make a profit out of it; all they wanted was to concentrate international business in Amsterdam and enable international commerce to be carried on with a currency as to which there could be no doubt; and so in the year 1609 they established the famous Bank of Amsterdam.

AMSTERDAM AND BANK MONEY.

What did that bank do? It played a great part in Europe for nearly two centuries; it played the rôle that is played to-day by the

Bank of England, for the greater part of its history. It rendered a very great service to commerce and trade. These Dutchmen found out exactly what was wanted not only at the moment but for some time to come. Here was Amsterdam growing into a great commercial city, not attached to a great Government with its own great currency, but attached to a petty State. That great city was attracting to itself the commerce of the world, and in doing so it attracted to itself the currencies of all the countries that wanted to take part in foreign trade. What was the state of these currencies? Nobody knew. When Spain became so superficially prosperous and wealthy owing to the enormous imports of silver, other Governments tried to enjoy some of it; and meanwhile, as there was not sufficient of the old currency to go round, they lowered themselves to the expedient of debasing the currency so as to make it go further. Thus some of it was debased, some of it was worn, some had the edges clipped, some of it had metal rubbed off it. When a man came across an English coin it might be very difficult to say what it was worth; and it was the same with all coins that were circulating. So it was decided to found a great model bank to put this right. And how was it to be done? In the ordinance of foundation every bill of exchange with a minimum of 300 gulden—quite a small sum—must be liquidated in Amsterdam and settled at the bank. The

whole of the traders in Amsterdam, native and foreign, owing to this, were compelled to have accounts with that Bank and bank their money there. And this was the way in which it was done. When a merchant went to the Bank to open an account he took his big bag of metal money and said: "Here I have a bag containing so many hundred, or so many thousand coins"—specifying what they were —"and I want to open an account." "All right," said the cashier, "the terms of the bank are these. We give you a receipt for the actual coins received; we then set to work and examine these coins and find out what is their intrinsic value as metal. Never mind whether they are English, French or Dutch, we want to know their intrinsic value in terms of the Dutch gulden. We give you a receipt for these actual coins, and we give you credit in our books for their intrinsic value in the terms of the Dutch gulden." That credit in the books of the Bank became known as Bank Money. As to the value of that bank money there could be no dispute. The integrity of the Bank was vouched for by the wealthiest city in Europe, and it was backed by the actual deposit of metal that had been made and valued by the Bank authorities. The fluctuations of this currency were kept within very narrow limits indeed by the policy of the Bank. Here the commercial community were given an absolutely safe instrument for circulating their trade, and Amsterdam, as a

consequence, became wealthier than ever. The foundation of that bank taught a number of exceedingly interesting economic lessons.

FAILURE OF THE AMSTERDAM POLICY.

Reference has already been made to one law which was first noticed by Sir Thomas Gresham, a great business man in London—the fact that bad money tends to drive good money out of circulation. Before the foundation of the Bank of Amsterdam that law was in full operation, and it was at the bottom of a good deal of the trouble. The Bank Money established in Amsterdam was free from the action of Gresham's law. It had one standard value; there was nothing to circulate with it; it was the standard circulating money, accepted by the whole commercial world. We may learn from the history of that Bank some very valuable lessons. The Bank flourished for nearly two centuries. It was subject to certain suspicions towards the end of the 18th century before the French over-ran the Netherlands, and it then lighted on a bitter experience. As a result it shut its doors at the end of the 18th century; attempts were made to open them again, but finally it had to close down about the year 1821. What was the real cause of the shutting down of this Bank? The answer to this question brings out a great commercial law in connection with banking. The Bank was founded by the city fathers, and banking, as understood then, was considered to be a business that required the utmost secrecy.

The city was pledged to retain in its vaults the whole of the metal deposited with it against the Bank Money, so long as that Bank Money was in circulation; metal could only be withdrawn or diminished as the credits were diminished, not otherwise; but the whole of the management and the whole of the staff of the Bank were sworn to absolute secrecy. Now it became evident as years went by to everybody connected with the Bank that to keep a great mass of metal in the vaults was absolute waste. The reason of this is now well-known. A comparatively small percentage of money deposited in a bank is sufficient to meet current demands. What the management saw was an immense amount of metal left there lying idle, and the secrecy under which all their proceedings were veiled suggested to them that it was unwise not to make use of this money. The authorities began to finance the Dutch East India Company; moreover a city like Amsterdam or London, or Nottingham, then as now is an expensive thing to run. It needs a water supply, drainage and all sorts of conveniences, and these cost money. The Burgomasters and Aldermen who had charge of the Bank seem to have thought, why should rates be levied with all this money available in the vaults of the Bank, and so they began using it for city purposes. The consequence was that, veiled in secrecy, a very fatal policy was commenced. A policy of that sort is easier to commence than to stop. It is easier

to open water sluices than to close them down; and eventually people began to get suspicious. Why were they suspicious? The Bank Money, naturally owing to its security, was a great convenience to the trade of the city. It stood at a premium, and the Bank made it its business to maintain that premium. If Bank Money had a tendency to decline a little, the Bank would come on the market and buy it up so as to restore the premium. That they could do, so long as the Bank was honest, but when they began playing the fool with the deposits, and people got suspicious, the city fathers were no longer in a position to go boldly on to the market and buy. Suspicions were confirmed, and that was the great cause of the Bank's failure. This taught the world the great danger of attempting to carry on a banking system under the veil of secrecy. That lesson was not fully learned, as we shall see, for a number of decades. We in this country established our Bank of England, and one hundred and fifty years later we got our Joint Stock Banks. And yet decade after decade we suffered from trade depressions. Our bankers were honest, it is true, but owing to the secrecy of their proceedings if a whisper got about, it was apt to spread and grow. If you start a run on one Bank it leads to a run on other Banks, nor was it until our bankers learned, and Parliament insisted on, the necessity for publishing accounts, that we got a flood of light on banking business which

maintained confidence in our Banks. And this did away with the panic element in commercial circles. We have had several crises since 1866 when Overend, Gurney & Co. failed, but we have had no panic, and what helps to eliminate the panic element during a business crisis is the fact that the veil of secrecy is no longer allowed to remain over the business of a bank. The Bank of England publishes its accounts every week, and the Joint Stock Banks publish their accounts in all their offices twice a year. The secrecy of its proceedings ruined this great Bank in Amsterdam, although for nearly two centuries that Bank had carried on a most valuable work and was a great instrument in developing trade and commerce.

Having now seen something of the fiscal policy, practised by France, England and Spain, it is interesting to see what the German Governments did. They developed a special sort of mercantile system, and it is interesting to know something about it because it has influenced German economics right down to the present time. The German Government gave their attention in very early days to taking measures to protect and increase the royal revenue. When it was a case of the king having a treasure hoard, that hoard was kept in a special room known as the Kammer. That name was given to the science or policy of maintaining the royal hoard or royal revenue, and what we call the Mercantile System is called in Germany Kammeralism. The Kam-

mer with its officials became a special training school for men who were going to be officials either in the Kammer or in a State department. What was the Mercantile System for this country became the Kammeralist system there, the object being to develop a great, powerful, wealthy, independent State or Kingdom. A good deal has been written on this subject. Indeed there was an economic policy reduced to a system in the German States before the rest of Europe thought much about it. During the latter half of the 16th century books were written on this system, and Von Hönig—who is said to be the man who coined the expression "über alles," but he put Austria first "Oesterreich über alles wann es nur will"—wrote a book in the year 1684, though the earliest writers are even a century before him. That policy does not perhaps interest us here, but it is worth knowing about, because it was upon it that the German policy was based, and German bureaucracy and officialism established. It has indeed been a great factor in German economic teaching and practice ever since.

Returning to our own country, the Mercantilists built up a great and powerful England. Their doctrines were discarded gradually one by one to the great regret of many people. There was special regret when the Navigation Laws were repealed in 1849, because it was feared that the death blow had been given to our shipping interests, that the foreigner had got the ear of the Government and

the Government was playing the country false. This is the cry we hear repeated even today. As a fact the Government had been wise enough to see that these leading strings had been used too long, and so a great industry was called upon to look after itself, it had to be freed from trammels; it must stand or fall according to the capacity of those who were responsible for it. There have been rather more than rumours and whispers that it might be necessary for us to reconstruct our position and re-enact some of this old policy to-day. It may be that that is true. In more than one field in pre-war days two great competitors—America and Germany—had out-distanced us, and it may well be that we require to do some additional building, which again in turn will require scaffolding, and that scaffolding will take the form of certain elements of this old mercantile policy. It may well be so, but it is well worth our while, when any such suggestion comes forward, to realise what the old position was, what the old policy effected, what its effects would have been had it been continued when it was no longer necessary, and then to consider what is the position to-day.

When we come to the end of the great French wars in 1815 this United Kingdom of ours was a little unit which, owing to the then state of America, the insecurity of Europe, and its own insular position and security, became the workshop of the world, the great

industrial and commercial centre of the world. Since those days a century has gone by, other countries have developed; Germany and America have established great commercial and industrial interests; Japan has come forward, other countries are coming to the front and in the great conflict—comparable in some ways with the great conflict of a century ago—we have got to realise that a very great development has been in progress. Thus we have reason to reconsider our position, and what it is economically. Perhaps we ought to begin considering whether in the changes that have occurred it may not be possible that what the United Kingdom was to Europe a hundred years ago, the bigger England, summed up in the Empire, may be to the world in 1923. That is a point worth thinking out and developing. For if we are to maintain a population in this country bordering on 50,000,000 what we want is evolution and not revolution.

BANKING IN ENGLAND.

Chapter V.

THE interest now shifts across the Channel to England. What was happening in England at this time when the Dutch were building up this very prosperous commercial community in Amsterdam? Queen Elizabeth, after a long and glorious reign, had died and the Stuarts had succeeded to the throne. We were developing our trade. English commerce and plantations were to be seen in various parts of the world, and as the century went along, in spite of troubles at home, we were becoming a great force both politically and commercially. In Cromwell's time the name and fame of England and the trade of England were very great indeed.

Beginning with banking, it should be remembered that it had been the custom of the merchants, when they had any spare cash, to put it for safe keeping in the Mint. The Mint was then situated in the Tower of London the safest place in the kingdom. But

in 1640 Charles I, being hard up, raided the merchants' hoard and appropriated—to use a Parliamentary expression—about £212,000 of the merchants' money—a very huge sum in those days. It is true that there was such an outcry that the money was eventually repaid, but after that experience no merchant felt inclined to place his spare cash at the Mint. What was to be done with it?

In this connection there developed a very remarkable occurrence. What were the merchants, owing to the insecurity of the times, to do? The Civil War was on the point of breaking out, and when it did break out, any money that was kept in their own offices or in their own keeping, might be stolen and carried off to one side or the other by some apprentice or journeyman. There was therefore a lack of security. The merchants looked round and found that there was a class of men in London who dealt in jewellery and bullion, who had a great amount of wealth in their keeping. To protect these it was their custom to construct very strong safes in their cellars, strong stone-built vaults with iron doors, so strong that thieves and fire could not injure their contents. Thus it struck some London business man that as the Mint was no longer a safe place, and that a friend in the shape of a goldsmith had a good strong room, why should he not ask him to look after his spare cash. So he did. He took his spare cash down to this gold-

smith and said: "You have a strong room, will you take care of this?" The goldsmith said he would oblige him but, being a business man, he insisted on giving a receipt so that there should be no dispute as to what had been deposited. Accordingly the coin was counted, a receipt given, and the merchant went away feeling that his money was safe. Then other merchants followed suit and it became the custom for business men with spare balances to deposit them for safety with the goldsmiths.

ENGLISH BANKING SYSTEM.

It was this system which led to the banking system in this country differing materially from the banking systems of other countries. These deposits were placed there merely for safe keeping and might be sent for at any moment: they were deposits at call. The Italian bankers took charge of deposits, but there was a charge made for looking after them, and as far as we know they did not make use of those deposits for trading purposes: they merely, as part of their business, gave a man security for his spare cash and charged him for its safe keeping. In England the goldsmiths gave receipts for those deposits. In the first instance they undertook the business to oblige friends: at any rate there was no question at first of any payment. It was a mere convenience, each man trusted the other on the security of the receipt.

Then another very interesting thing occurred. The exact details are obscure but something like this happened. A business man would be sitting in his office, there would be a tap on the door and in would come a man who said: "My account is due, if it is convenient I should like the money." "How much is your account?" the business man would say. "Two hundred guineas." "Right. Now I have got a deposit of 200 guineas out with So-and so the goldsmith. I will send the clerk down for it if you like. If you don't happen to want the money here is the receipt. You know So-and-so's signature?" "Yes, that is all right." "I will make it over to you and that deposit shall be yours." The man said: "I don't want the money just for the moment, this is as good for me as the money." And he took the receipt and the deposit was not asked for. This became a habit. It was a convenience in paying bills, instead of sending down to the goldsmith's for cash, just to hand over one or more of these receipts, and if there was a little balance to make up, to pay it out of the cash box. Here we get the first note circulation, the first paper money in this country. Deposits at call might be asked for at any moment in business hours, receipts were given for them, and these receipts were circulated in somewhat the same way as bank notes do at the present time.

As time went on the goldsmiths began to

get experience about these deposits at call and this note system. One note might pass as many as fifty times in a day while the money it represented was lying in some goldsmith's vault in Cornhill never touched. But another thing became apparent to the goldsmiths. These deposits were at call and they reasoned in this way: "If our liability is the full extent of this money we must always have it there because we don't know when it may be sent for, and we must be prepared to hand it over." As the years went by, those goldsmiths who kept account of what was going on, found that there was always a proportion of these deposits that was never asked for. The notes were in circulation and never came to be cashed, and as experience increased year after year it was found that practically 80% of the amounts deposited were never asked for, that if they kept in their vaults 20% of the deposits they would be safe; if they kept 30% they were absolutely safe. In other words, they could use 70% of these deposits for banking purposes if they liked to take the risk. They were responsible, of course. Here we have the great principle of modern English banking: deposits at call which may be asked for at any minute, experience telling how much of this money will remain in the keeping of the banker, and how he may use that balance to the best advantage.

ORIGIN OF PRIVATE BANKING.

We sometimes grumble that the German

banks do more for commerce and trade than our banks. Yes, but it is a different system, for the German bank is rather a finance corporation: it is scarcely a bank in our sense of the word. Banking with us has a very special connotation, and the leading feature in English banking is this being responsible for deposits*

*"In the reign of William III old men were still living who could remember the days when there was not a single banking house in the city of London. So late as the Restoration every trader had his own strong box in his own house, and when an acceptance was presented, told down the crowns and Caroluses on his own counter. Before the end of the reign of Charles II, a new mode of paying and receiving money had come into fashion among merchants. . . . . A class of agents arose, whose office was to keep the cash of the commercial houses. This new branch of business naturally fell into the hands of the goldsmiths, who had vaults in which great masses of bullion could lie secure from fire and from robbers. . . . . This great change did not take place without much opposition. . . . . Old-fashioned merchants complained bitterly that a class of men, who, thirty years before, had . . . . . made a fair profit by embossing silver bowls . . . . . and setting jewels for fine ladies, ... had become treasurers and were fast becoming the masters of the whole City. . . . . On the other side the conveniences of the modern practice were set forth . . . . . it saved both labour and money. Two clerks, seated in one counting house, did what, under the old system, must have been done by twenty clerks in twenty different establishments. A goldsmith's note might be transferred ten times in a morning; and thus a hundred guineas, locked in his safe close to the Exchange, did what would formerly have required a thousand guineas, dispersed through many tills, some on Ludgate Hill, some in Austin Friars, and some in Tower Street.

Gradually even those who had been loudest in murmuring against the innovation gave way, and conformed to the prevailing usage. The last person who held out, strange to say, was Sir Dudley North. When, in 1680, after residing many years abroad, he returned to London, nothing astonished or displeased him more than the practice of making payments by drawing bills on bankers."—*Macaulay History of England Chap. XX.*

at call and knowing how to utilise what balance is available.

It is a remarkable fact that at the present day the experience of bankers is almost the same as that of these early goldsmiths—that 20% to 30% of the deposits are sufficient to meet demands. And the curious thing is this that not only all the big commercial centres like London found this, but the same thing came to be the experience in the country towns.

There was a most interesting illustration of this in Nottingham. In the corner of the market place there is a bank building bearing an inscription which says that this was the original site of Smith's bank. I wonder how many Nottingham people know the history of Smith's bank? Smith was a draper in Nottingham at the time when highwaymen were one of those interesting adjuncts to English life. Nottingham was a country town and farmers used to flock in on market days with their produce. After they had had a good day's business and taken a considerable amount of money they would go to one of the numerous inns and have a substantial meal and wash it down with something stronger than water. Of course they were the natural victims of the highwaymen. On many occasions these farmers going home from Nottingham were robbed of their money. Now these farmers had a rather amiable practice which many people might copy with advantage. If they had done

a good day's business, they not only did themselves well at one of the festive Inns in Nottingham, but it was the practice of many of them to go to Mr. Smith the draper and buy something to take home to their wives, and Mr. Smith's shop became quite a rallying place for the farmers. Apparently a farmer one market day lost a good deal of money. Thus the next time he went into the market having sold his stock and so having a good deal of cash on his person he went into Smith's to buy a bonnet or something for his wife. In the course of conversation he said to Mr. Smith: "I rather dread taking this money home to-night. By the way have you got one of those new fangled things called a safe? I shall not want any of this money until next market day: can I leave it with you?" Well, that farmer got home safe, while probably others were robbed. The news spread, and to make a long story short, it became the habit of farmers to ask Mr. Smith if they might, after a good day's marketing, leave their cash with him. Mr. Smith found exactly what the London goldsmiths found, that it was quite unnecessary to retain the whole of the deposits in his safe. He was a flourishing country draper, and he was responsible for those deposits, but he found that between 20% and 30% of the deposits kept in his safe were sufficient to meet all the demands of the farmers, and the balance was not demanded. He began developing his own business and

commenced loaning to other business men. Thus one day he had a summer sale and re-opened as "Smith, Banker." There you have the origin of Smith's bank in Nottingham. He found that Banking was more profitable than drapery.

This in outline shows how both in London and in the country, private banking commenced. Goldsmiths and tradesmen who had credit undertook to accept deposits consisting of the spare cash of people who could not find other places where it would be safe in England. The extraordinary experience resulted that quite a moderate part of the amount deposited was sufficient to meet the demands for cash of the depositors. The receipts served at first as a note issue, and the parties entrusted with the cash were able to develop the business of the banker.

BANKING AND THE COINAGE.

That business developed in England and for a century and a half it was thought quite right to issue notes very much in the way that the goldsmiths had done. This became the great mark of a banker, and usually the chief source of profit. Thus it was thought that if anybody got a monopoly of notes he had the monopoly of banking.

A century went on. We have passed the middle of the 17th century. Oliver Cromwell died, and the Protectorate came to an end. England enjoyed a position it had not enjoyed since the days of Queen Elizabeth. Then the

Stuarts came back and there was more trouble. Charles II, one of the cleverest men who ever sat on our throne, but a bad man, was succeeded by a weakling who had to abdicate, and then came William and Mary. William and Mary had to fight for their crown against Louis XIV of France. They wanted money, and people began saying "Look what the Bank of Amsterdam is doing; why not have a Bank of London?" A number of pamphlets were published on this currency and banking question, very similar to what we are getting now explaining the exchanges. Thus at the latter end of the 17th century, economics as a science began concreting itself. Men began to be conscious economists, because these great economic commercial questions were agitating the people.

The Dutch had founded the Bank of Amsterdam. That bank was very prosperous and was a great source of strength and wealth to Amsterdam, and a great help to the Merchants. William III was fighting against Louis XIV for the liberties of Europe. He had his own armies on the Continent and he had to finance his Allies. He had to pay his troops, and when payments were made from the Bank of Amsterdam it was found that that was unsatisfactory, for it took £120 or £130 in English money to get £100 to the troops or to the Allies. These questions of exchanges are no new questions; they troubled our ancestors.

It was determined that there must be a new coinage; these losses must be stopped; the old coinage must be got in and there must be a new, full-weight issue as to which there should be no dispute. Thus there were two big topics before the country—an English Bank and the coinage. There were in existance the Bank of Stockholm, the Bank of Amsterdam, and the Bank of Genoa. There was no Bank of London. That was one problem, and there was this necessity for a new coinage. Now when there is a proposal which is eagerly taken up for the founding of a bank, it is much easier to say "We want a bank" than to say what form that bank is to take. When the public and the Government and the business community are trying to find a way we may be certain that there will be numerous wild cat schemes put forward, and if the community is unable to choose wisely between these wild cat schemes it will burn its fingers. It is just as true to-day as then, and that is why it is so interesting to study the measures taken under somewhat similar circumstances to get on to the right track.

It is unnecessary to deal with all the schemes that were put forward, but there were two from which we can learn a great deal. Rival schemes were put forward towards the end of the 17th century for the founding of a Bank of London. One was the scheme of Dr. Richard Chamberlayne, which was known

as the Land Bank scheme; and the other was the scheme of William Paterson from which we got the Bank of England. The Land Bank scheme is of interest because the errors connected with it are like the poor—they are always with us. The Americans burnt their fingers fifteen years ago because they fell into the same sort of error that was at the basis of Chamberlayne's scheme.

There is a great authority on banking—Gilbart. He was the first joint stock manager in this country. He wrote a very valuable book on banking. Gilbart used to counsel young bankers, and one of the things he used to say to them was this "Banking is a fairly simple business if the management realise the difference between a bill of exchange and a mortgage deed." Now although he said that, and although from the time of Chamberlayne and Paterson right down to the present, people have known that, we still go floundering into trouble which could be avoided if we really realised and practised that wise old saying of Gilbart's.

THE CHAMBERLAYNE SCHEME.

Chamberlayne's Land Bank scheme was most interesting. It was going to do wonders for the country; and superficially it looked so good that a committee of the House of Commons recommended that it should be accepted. It was only when it came before the whole House that the futility of the whole thing was seen, and it was laughed out.

Chamberlayne started by saying "If my bank is established all the distempers of the State will be cured; there will be no paupers; there will be no need of Poor Law; there will be no need for taxes for the Treasury will always be full of money; there will be no need for rates because all the people's pockets will be full of money; only one class of people will suffer and they will be the people who finance us and are the cause of our troubles. Well," he said, "what dunder-headed people we are. We take a sterile metal like gold or silver and put it in a vault and carry on business to an extent enormously greater than the value of the deposit. Here is a sterile metal producing nothing. Just fancy what you could do if instead of putting money in the vaults of a bank, you had the title deeds of good English land producing crops all the time, and every acre of which is productive! If the landowners of the country will bring the title deeds of their land into the bank which I can establish, I can issue notes against that productive land and we shall all be wealthy. The only people who will suffer are the wretched people who put their confidence in gold and silver and paper credit instruments." Where was the fallacy? It was pointed out by Gilbart—the difference between a mortgage and a bill of exchange. If this bank had been established, a man could have gone in with the title deeds of property which was said to be worth £10,000 and they would have issued to him

Land Bank notes to the full amount. He would still have the use of his estates; he would simply have deposited the title deeds. He could not deal with the property, having deposited the deeds with the bank, but he could enjoy his estates, and he could have a great mass of capital to play about with and make more money. What a pleasant prospect. And they went one better than that. Before the scheme was finished they were willing to issue more notes than the land was worth. Now where was the fallacy? When the goldsmiths gave a receipt for gold, they did not say: "If you have got one of our goldsmith's notes—a receipt for £1,000—you can go and get an estate worth £1,000." They said: "You have got a receipt for £1,000 in metal, you shall have metal; we make ourselves responsible to supply that metal on demand." The deposit was metal and the currency was metal. If there was any fluctuation in values, the deposit and the note issued against it fluctuated together. But Chamberlayne was going to take the title deeds of land into his bank. So far so good. If he had issued a note against them giving title to so many acres of soil and so many hundredweights of farm produce it might have been safe if people were willing to take such a currency. If things went wrong, a man who held a note of that sort could go and have to the estate and taken what he was entitled to, if he was willing to carry it away. What did Chamberlayne do? He said: "You leave

your title deeds with me and I will issue so many notes in terms of gold." I get £1,000 worth of these notes and I go to the bank and say: "I want £1,000," and the bank says "I have not got it." But if I insist on having it the bank's only resource is to sell the estate, and they would have to put the estate, which had been valued at £1,000, up to auction. It might fetch £1,200 if put up to auction at a favourable time, but when there is a forced sale it may be knocked down for £400 or £500, and someone has burnt his fingers very badly. That was what was wrong with the Land Bank. A man accepted as security land and issued against that land paper in terms of gold. Now if a bank is dealing with bills of exchange in terms of gold it is entitled to gold and nothing but gold. In normal times the bank may not insist on gold, but if a banker is making an advance against mortgage he never knows what he is going to get. That is why banks are so little inclined to lend on the security of real estate; in such a case they must have a very big margin and know their customer very well before they are inclined to make advances on mortgage of property, because they are advancing gold against land. There may be enormous fluctuations in value in times of panic, and that is the time when people want their money. Then if you get a forced sale and no one is willing to purchase, these properties go for very little or nothing.

LAUGHED OUT OF COURT.

Now, under different conditions, that is exactly what happened in America fifteen years ago. America had a currency issued by the National Banks, primarily against Government bonds. It was issued against debt. These Government bonds had a very high credit, and so far so good. But America is a very big country, and the geographical difficulty prevents anything like a cheque circulation such as we have. In America at certain times of the year when the harvest is being cut there is need for a very much greater amount of paper money. They want a rapid expansion of currency at such a time. America had expanded its currency, and had got into the habit of expanding its currency not only against Government bonds, which were safe, but, when there was not enough to go round, against railway debentures—they were perhaps fairly safe; but when there was not enough of these they went to industrials, and thus they got a huge amount of paper circulating against debt. And what was the debt worth? What were these mortgage deeds worth? If there was a forced sale and they had to realise, there was trouble. Our former illustration helps us to realise that what seem to be new situations are, after all, not new.

In the year 1691 the Land Bank and the Bank of England were placed before the public, and the landed interest, at any rate, quite naturally were inclined to favour the Land

Bank. It seemed a good argument to go to the country with. Surely a good acre of valuable fertile land is better security than a note issued against a piece of sterile metal! They forgot that against that fertile land they were proposing to issue metal, or promising to pay metal; thus against that fertile land they were not promising to pay fertile land, but money secured by what might have the impudence to become less valuable than the sterile metal, and then they would be in queer street. That old tag of Gilbart's is worth remembering—"banking is a comparatively simple business if the management can ignore the difference between a mortgage and a bill of exchange." So this Land Bank scheme was laughed out of court. It is well worth reading about. There are many details full of interest. You can read about it in the social and industrial histories of the times.

THE BANK OF ENGLAND.

Then came along the scheme of William Paterson, who suggested the establishment of the Bank of England. He was a Scotchman and a rather curious character. His biography can be read in the Dictionary of National Biography. He had been out in the West Indies and on the Spanish Main. His friends said he had been a missionary: his enemies said he had been a pirate. At any rate he was a good business man, and when the Government were hard up in 1691 and did not know which way to turn for money he brought

out his scheme which was placed before Montagu, the Finance Minister of William III. This scheme was to establish a bank in London to carry on banking business, and it was seen that this bank had various advantages. The scheme was sound and regarded by the business community as such. The bank was to be based on sound business principles, and its business was to be the ordinary recognised banking business. There was to be no playing about with doubtful securities: it was not even to hold goods, though it might advance on bills which were backed by goods. But if those bills were not honoured, the goods were to be sold for what they would fetch within three months. The management were not allowed to speculate in goods: it was to be a banking business pure and simple. The original capital was £1,200,000 advanced to the Government at 8%. The bank was eventually founded in 1694. A great name connected with the re-coinage which was effected two years later, is that of Sir Isaac Newton, the great English mathematician. That re-coinage nearly wrecked the Bank of England. The goldsmiths were naturally hostile to this new bank: it had got its charter containing special privileges, and they saw in it a very strong competitor. Thus when the re-coinage took place they saw their opportunity for revenge. The country was very short of cash for a long time. The Mint could only issue the re-coined money in small

quantities from time to time. In those days it took a long time to get business done and there was a great shortage of cash, the consequence was that the goldsmiths engineered a run on the bank, although the bank was only a year or two old. The Directors defied the goldsmiths. They said: "This is not genuine business: it is an attempt to wreck us and we will not give you cash on demand and we will not declare ourselves bankrupt and put up our shutters, but we will simply ignore you: we will still carry on the ordinary business and work with our ordinary customers, but we will simply treat you with disdain." And the Government backed them up, and the bank survived the crisis. It was a difficult time. But at this point the interesting thing to notice is that these two events in England, the necessity for founding a bank and the re-coinage, led to people taking a conscious interest in economics. Sir William Petty, a great Englishman who was the father of statistics, had written on economic subjects even before this date, and there were other men who began to develop his views. The old Mercantile System had led to a system of strong protection, it [illegible] considered that everything must be done to bring gold into the country, to make the country strong and wealthy. Such a policy was getting out of date. When a policy is carried to an extreme you always get the swing of the pendulum. [illegible] protective measure, coercion, or [illegible] it may

be, if carried to extremes you may look for the swing of the pendulum. In connection with this economic question people began to question the high protection. Then someone advanced the question what is wealth? Does it consist of gold and silver? Let us carry that argument to the extreme. Suppose you fill the country with gold and silver what are you going to live on? This led to further speculation as to what wealth really is. You cannot eat gold but you can eat a good beef steak, and you can wear clothes and live in a house. If you have got these things you don't want money. In other words you people began to get a notion as to what wealth really is. The wealthy country is the country where you can get all those commodities which enable you to live at a high standard of comfort. Robinson Crusoe, if he had had a million sovereigns in one of his huts, and a rifle, powder and shot, tool-bags and fish hooks in another, and knew that he had got to stop on the island for many years, and had simply to choose, which hut would he have taken? Gold is no good unless you have those other commodities which gold will buy. Gold is the standard of value, and it is the medium of exchange. But you may have too much of it in a country, or you may have too little. It is only one part of a country's wealth. The real wealth consists of all useful commodities: gold is only one of them.

NEW AND OLD WORLD THEORIES.

These new views began to be current: people began to write about them and a more liberal school of thought arose. It was realised that the protectionist system was going too far, and that it was necessary to reconsider some points so as to slacken down some rigid regulations. It might have been necessary to have these laws and regulations while the State was being built up, but now that the State was built they should modify and relax things to meet new conditions.

These new doctrines were taken over to France from England, and so the interest for us shifts to France for nearly half a century. The doctrines were adopted at first by one or two men in France who speculated on them. They saw that there was a good deal of truth in them. They began to discuss the new theories and found that they fitted in with some old-world theories and speculations of Greece and Rome. The Romans made use of some speculations they had borrowed from Greece about the law of nature—how to do things in a natural way: what would nature prescribe? Jus Naturæ—the law of nature, said the French theorists, is what we need to go back to. These views came over to England and seemed to embody a valuable truth. There is a natural and an unnatural way of doing business, of taxing people and carrying on the State, let us find out what the natural way is, and when we have found it, let us

follow it. Then arose a band of men in France who called themselves Les Economistes. Adam Smith calls them the Agricultural School because they went to nature and believed in agriculture as the source of wealth. They are known in most of the text books as Physiocrats—men who believe in going to nature. These people are very interesting. they were quite well-known and well-to-do. One of them was a physician to Louis XV, another of them was a French nobleman, and several of them were French statesmen. They formed a little body of men at the king's court. The king's physician Quesnay, wanted to know what was the condition of France, and he drew up a Tableau Economique showing the existing state of France. It was discussed in Versailles and a copy of it is extant with notes written in the margin by Louis XV, so that we know that the French King was interested in these things.

What was the condition of France at that time? Lous XIV had reigned for 72 years—from 1643 to 1715—one of the longest reigns in history. He had been a most extravagant king: he had wished to dominate Europe. He had been extravagant in all sorts of ways, and when he died, he left France with a debt which would be represented in our money by about £700,000,000. The population in 72 years instead of increasing, as the population should do if a country is progressive, had decreased by 4,000,000, and the state of France was

horrible. Now these economists took up the state of France and the condition of the mass of the people. They began to speculate about the problems and see what ought to be done to put things right. The king was most interested in this but was unable to do anything—at least apparently. Then a great Englishman went across to France and joined in these conferences. That was Adam Smith who went over there in 1766. He had a year of discussion with these men and then came back. For ten years he worked away at the subject. In those days people did things thoroughly. Adam Smith took over ten years to gather together his information: he had been working on these subjects long before he went to France, and in 1776 he published his work: "An enquiry into the Nature and Causes of the Wealth of Nations."

CONSCIOUS ECONOMICS—WHAT IS LABOUR?

Chapter VI.

THERE are one or two further points to mention in connection with the French economists of the 18th century before we go further. We saw that whilst the mercantilists guaged the increase to the national wealth by what they termed the balance of trade, these French economists or physiocrats had a very different system since they attributed all increases to nature. Adam Smith had called them the Agricultural School. With their somewhat limited knowledge they concluded that it was only people working on the land who could really produce anything: and so their method of judging increases or decreases of the national wealth was to find out what the net product each year amounted to. They would take the whole of the national production from land, or mine, or fishery: they would deduct from that gross total the cost of producing that result, and the net amount was what they called the net product, or, as the French say, "Produit Net."

They considered that this alone was realised wealth, and so they advocated a single

tax system. They were the first single taxers. "What is the good," they said, "of the Government putting a tax on hair powder or on exports and imports when in the end everything must come from this one source? It is surely simpler to have a single tax on this one fund and make that suffice." We know of course, that their knowledge was imperfect, and when we deal with their teaching on the subject of labour we shall see where it was imperfect even more clearly. They had this idea of calculating any increase of the national wealth by finding the amount of wealth brought into being, as they imagined, by agriculture and the extractive industries. So far as government was concerned they told the King and Government to look to nature and find out what was the natural way of governing, and abide by that: hence we get that well-known motto "laissez faire, laissez passer—don't interfere, let things take their course. Men know what are their true interests, leave them to follow those interests: do not restrict them and put them in artificial channels: let life be natural.

These people theorised and speculated on all the different spheres connected with man's economic life, and naturally they had to consider the subject of labour. Looking at labour, they concluded that there is a great mass of labour in the world which is useful, but it is not productive. And they enunciated a theory in connection with productive

labour which is not only interesting but warrants us at this point to carry through our consideration of the theory down to what is accepted at the present day.

THE PHYSIOCRAT'S FALLACY.

The physiocrats naturally with their affection for the land and all that was connected with the production of food and raw materials laid it down that the only labour that could be classed as productive was the labour employed on the land, in the mine, and in fisheries: all other labour might be useful but it was unproductive. There has been a long and sometimes bitter controversy on this subject of what is productive and what is unproductive labour.

What was the fallacy in the physiocrats' position? With their limited knowledge it seemed to them that when a man cultivated the ground and put in the seed, when that seed produced an ear of corn, there was a very big increase, there was the actual creation of matter; the same in connection with the production of foods and raw materials—there was something actually created. When the raw material was taken by man to a factory or mill and transformed into a manufactured article the physiocrat taught that he had simply taken materials created by the agriculturists and changed their form: he had created nothing. If he took a bale of cloth which had been made out of raw wool he could unravel that material and reduce it to the raw material

once again. Nothing had been added to it; it had simply changed its form. Labour that does that may be useful but it is unproductive, You see their knowledge was limited. They did not know what we know, that when a man works on the land, ploughs, harrows, drills and sows the land and waits for the harvest, he has only been doing in another form what the man in the factory does: he has been allowing different materials to come together and assume a different shape. Nothing is created. The material world cannot be subject to addition. You can change the form: you can take properties from the soil and combine them with the life of the seed and with moisture and other things, and you can get a crop, but you create nothing. No new matter can be created: and the man on a farm growing wheat or any other cereal crop, or any raw material, is simply doing what a man does who works in a paper factory—he gets the raw materials of the paper and putting them through certain processes which change those raw materials into paper. The man on the farm puts in the seed in such a way that it is acted upon and absorbs necessary properties and grows: you get a new form from pre-existing materials. The physiocrats did not know that: they had not the knowledge in these things that we have. Thus they divided labour into two classes, productive and unproductive—a very clear division. Unproductive labour may be useful but it is not productive. Now let us

trace the growth of the development of this theory as to productive and unproductive labour and see where we stand at the present time.

WHAT IS PRODUCTIVE LABOUR?

Adam Smith began considering these theories and saw that they were wrong. He says that a man who manufactures raw materials, a man who takes raw wool or cotton and knows how to spin and weave and produce material, has produced value, in many cases great value. He worked it out so clearly that since his day nobody has attempted to say that manufacturing labour is not productive. And so another great mass of labour was added to the productive class.

Then there was a long discussion about labour connected with transport—the sailor and the waggoner. In those days there were barges and carts, but no railways. What about those men who simply took goods from one place to another? They did not produce wealth by their work in the way that a man in a factory does. "Surely" said the opponents, "these men are unproductive labourers: they may be useful and their work necessary, but it is not productive work: the wool is the same when it reaches London as when it left Sydney, and woollen cloth is the same when it reaches Calcutta as when it left Bradford." But then it was pointed out that even the physiocrats had considered the miners as productive workers, and all the work they did was to take

the coal, which was a manufactured article down in the interior of the earth and transport it to the top of the pit. Surely if the labour which makes it possible for the coal to be brought from the seam to the surface is productive, so also is the labour which takes the coal to the factory where it is required to produce power. Thus after a great deal of controversy, transport labour was recognised as productive labour, so that we get two great classes added to that of productive labour, namely, manufacturing labour and the labour of transport.

Then came the question, what about commercial work? There is the factor, the merchant, and the retailer, and there are all those professions connected with markets and buying and selling: can all that be called productive labour? Again there was a long controversy, but that also was settled in favour of considering this type of labour productive. There was some ridicule thrown on the argument by a man who said: "You take a draper: he receives a bale of silk and he cuts it up, do you call that productive? He takes so many yards of ribbon on a spool and cuts off a yard. Is that productive?" The reply came: "Certainly it is productive. If I want to make a coat and I go to a retail cloth merchant and say I want whatever number of yards is necessary to make a coat, and he says there is a bale of cloth, take it all; but I reply that I can make fifty coats with that quantity, I only

want a small quantity." If he insisted that I must take all or none, the position would be an impossible one. If a lady wants a yard of lace or a yard of ribbon, or calico, and the retailer says you must take the whole roll or nothing, society could not get along. The subject, therefore, had to be worked out on commonsense lines, and it was seen that the work of industry and commerce and everybody connected with marketing and finally the retailer are all required to complete the cycle of production. It is no use producing the commodities if you cannot have them retailed in quantities to meet the requirements of the consumer, so this type of labour completes the cycle of production and it is only commonsense to call it productive.

MORE PRODUCTIVE WORKERS.

But we have not exhausted the different spheres of human energy yet. We have the professional classes as they are called—solicitors, barristers, teachers, clergymen, doctors. One witty Frenchman said: "Am I to call a doctor a producer who comes to take my leg off?" But we see the doctor and the surgeon must be included as productive labourers, because they keep the workers of the country in good health. Thanks to medical science and surgical skill the average life of the working man has been increased several years. The doctor has very directly assisted in the work of production by adding greater length of business experience to business life

and by lengthening the average life of the ordinary man; by keeping the people fit and making them fitter for their work, the doctor has aided the work of production. Then we consider the case of the schoolmaster and the university man. Are they productive workers? Does the work of the school or university assist the work of production? At one time it would have been difficult to prove that, but to-day we see the chemist in his laboratory analysing the soil, telling the agriculturalist what is wanted to produce the best qualities of wheat and what it is that that crop takes out of the soil; thus the researches of the skilled chemist enable us now to get largely increased crops out of the soil. Only last year at Cardiff Sir Daniel Hall gave a lecture in which he showed that as the result of one series of investigations it had been proved possible to quadruple the crop off a given piece of land. Scientific teaching shows that the working force of an educated business community is more productive than an uneducated one; it is more thrifty, more regular in its work, it understands the forces that have to be complied with to get the best results. Seven-eighths of the friction of the industrial world that has given trouble so long is due, not to knowledge but to ignorance. We want to get rid of that ignorance, to improve the condition in the industrial and commercial world.

Coming to another class, the objector says "Surely the clergyman is not a pro-

ductive labourer?" Is he not? People go to church or chapel or attend a religious service that appeals to them. They feel that it helps them, and makes them more honest, more thrifty, more industrious—better citizens. When the work of religion is carried on in a right spirit, it is a very distinct help to the work of production. So we get what are called the professions added to the productive class.

Can the actor and musician claim to be productive workers? Suppose a man has done a hard day's work at the lathe or loom, or in the office or laboratory and he is thoroughly fagged out, being fond of music or the theatre he goes to his favourite amusement and gets re-created and has a good night's rest and starts next day fresh again. Surely his work has been assisted by the musician or the actor. And so actors, musicians and entertainers who really help to re-create people and make them fitter for their work may be classed as productive workers.

VALUE OF ORGANISING ABILITY.

Can we find an instance of unproductive labour? Unfortunately we can. There are people whose work, instead of assisting and brightening life and ennobling it, has the opposite effect. It panders to the lower side of life; that type of work is unproductive in the worst sense of the word. Thus the teaching of to-day is this—and it is commonsense—all labour that either directly or indirectly assists the work of production is productive labour.

Take the King and his Ministers, Judges, the necessary officials of State, they all, from the humblest position up to the King himself have assisted in a system of government under which we get security and can work to the best advantage. Take away that system of government and there would be chaos and insecurity, our work of production would be limited, and our position stultified altogether. Therefore we find that State officials from the highest to the lowest render assistance to the work of production. So economists now do not differentiate so much between productive and unproductive labour, but they give their attention to considering which are the most productive forms of labour.

That may be invidious but it serves a very useful purpose, because when we have agreed the utility of different types of labour and have shown their value to the community, it will help us to get a more equitable distribution of what is produced. In the text books various grades are suggested.

We might put in the first place as the most valuable form of labour, because it is rarest, the labour that is capable of organising industry on first-class principles. That is a type of labour which is of the greatest value to the community. The man who can organise a big industry under which production takes place on the best terms, and in connection with which the various grades of labour that are necessary are working under the best

conditions ; the man who can so organise as to be able to give the best possible wages, reasonable hours of work and permanence of employment is of great value to the community. There are very few, or comparatively few really great organisers, and that type of labour comes first because it is of the greatest value to the community. These men, when found should not be penalised as we are apt to penalise them ; they ought to be encouraged, because it is these men who may make life easier and better for the great mass of mankind.

There was a conference in London during the war between representative business men and labour men, and they were discussing how things were to be set going when the war came to an end. They were debating the relative values of the different types of effort, and one of the Labour leaders got quite enthusiastic over it. There was a table near to him and upon it a water bottle of very handsome cut glass. The man got up and took hold of the bottle and said : "Think of the value of labour that can produce a thing like that." An employer followed him and said : "What I would like to point out is the value of the brain power that can see the possibility of producing that. Think of the organised factory in which it was made, which employs draughtsmen to design, collects the necessary raw materials together, employs skilled workmen to get together the necessary tools to produce the result !" That was new light to

many present. Both types of labour are valuable, and neither can do without the other. That is the point. So we put as the most valuable form of labour the man who shows his ability as an organiser. He can practically command his own salary, and as we know huge salaries are paid to capable organisers. In a discussion with some very energetic working men the question was asked: "Why don't you men attack the big salaries of men who are running huge businesses?" "We know their value" was the reply. "What we object to is the big dividends that go to shareholders who sit still and do nothing."

ADAM SMITH'S CONTRIBUTION.

After that type of labour the next most valuable man is the inventor. Take the men who have invented processes and machinery; the men who can show us how to get a four-fold crop of corn from a given area, their value to this community is very considerable. It is a very useful exercise to work out for one's self a scale of labour value in this way. The text books do it; but it is well to make our own scale for comparison sake. The man who thinks and uses his independent judgment is of great utility to the community because even if he comes to a wrong decision when it is is proved that he is wrong, he will be willing to reconsider and test his own decision. The man who does not trouble to think, but labels himself a Conservative, a Socialist or a Bolshevist simply to save himself the trouble of

thinking, is of very little use. What we want is independent thinking.

The Physiocrats certainly benefited the world by their thought. The pendulum had swung from the side of high protection and State interference to the side of "laissez faire, laissez passer." And then a very interesting thing occurred. Adam Smith, as we have seen, in the year 1766 spent several months discussing these points with the Physiocrats. He was a very remarkable man. He had no great advantages, except that he had received a good Scottish education. His book is still well worth reading. Some people, when it was published, thought that he had founded a new science; at any rate it was the first authoritative text-book on a new subject; and if we remember certain things that have happened since it was written we shall see how great that book is. It is unique for one book practically to affect almost, if not every human being in the way they have been affected by that one book. It has affected the practical conduct in every-day affairs of both the statesman and business man.

Four things should be remembered when reading that book. When Adam Smith was writing, what we know as the historic method had not been utilised. The historic method of treating a subject has been raised almost to a science now. Adam Smith makes use of it, indeed he is one of the early workers who saw the advantage of using the historic method.

Darwin's theory of evolution was developed the best part of a century later, and yet Adam Smith had a glimmering of evolution. The use of the historic method and the theory of evolution have very drastically altered our outlook on life. Then there is a third point—the birth of democracy. That dates from the time that the American colonies threw off their dependence on this country and asserted their own independence—the very year this book was written. French writers tell us that the birth of democracy was 1789, but they are a few years too late. Surely it dates from the assertion of American independence, the time when a French Army under Lafayette went out to assist the colonists against George III and imbibed new ideas in the New World.

DIVISION OF LABOUR.

And lastly there is the greatest of all, the industrial revolution. That took place after Adam Smith wrote his book. While he was writing it James Watt was perfecting his steam engine at Handsworth, I think about the year 1774, and in 1776 you get this great book of Adam Smith's. That year 1776 is one of the greatest milestones in the world's history—the birth of democracy and the invention of the steam engine and the publication of this book which together revolutionised thought and practice on the material side of life.

Do not think that "The Wealth of Nations" is a dull or dry book because it is written in a somewhat old-fashioned style. If

we have a love for literature and read that book in the right spirit we shall find much to fascinate us; it is so practical. Adam Smith was no arm chair philosopher. It is true he had had a complete education: that he had been at Edinburgh and Glasgow Universities and at Oxford. He was a scholar at Balliol and took his degree there and went back to Glasgow as a Professor. He was an educated man, but he was not one of those wizened-up old fossils, with bald heads who generally work at their hobbies and know nothing outside, who study their own particular subject to the exclusion of all others. Adam Smith, at any rate, was not one of that sort. He could think and when he theorised he looked for practical confirmation of his thoughts. He was no arm chair theorist.

Here is an instance of his method. He was considering the subject of labour as applied to productive work; and he realised that there was such a thing as getting increased production by a division of labour. It must be remembered that this was before the invention of the steam engine. He thought out the possibilities of increasing the amount produced by each craft having a well organised system of division of labour. For instance, if when chairs had to be made, instead of giving one man a quantity of wood and telling him to make me a chair, the making of a chair was carefully divided up into a number of processes, so that one man made a leg and

another made a seat, dividing the work into a number of processes, the cost of a chair would be reduced very considerably indeed. Smith thought all this out, but before he published his conclusions he decided to prove them from practical life to see if they were true. He knew that in the Midlands there was a manufacturing town where they were able to turn out large numbers of things cheaply, so he journeyed to Birmingham and visited a pin factory and asked the owner of the place how he made pins. The proprietor explained the method. "Yes," said Adam Smith, "I know you get a bit of wire and that kind of thing, but what about the labour?" The owner then explained that there were 18 processes in the making of a pin, in consequence of which each man got very expert in his special process. If one man was set to work to make the whole of a pin he might make 20 in a day, but by dividing the work into a number of processes eighteen men were able to make twelve pounds of pins each day. Adam Smith at once saw that here was his theory in operation. For eighteen men made 12 pounds of pins a day and there were 48,000 pins in 12 pounds So you see he got confirmation of his theory at once. In those early days, about 1770, there was division of labour in the making of this tiny article, and there was an enormous increase in production. Adam Smith had thought out this policy without knowing anything about the making of pins, and went

to Birmingham to confirm it. Some time ago I made some inquiries in Birmingham where they still make pins, and I found that they make them automatically by machinery and there you get the division of labour carried to the final limit. A modern automatic machine turns out 12,000,000 pins per hour.

That was Adam Smith's way of working. He thought things out and then tested them in practical life. His book is a standard work to-day on the production and distribution of wealth. He explains what factors are necessary for production; what is due to those factors, and he shows how each of those factors is rewarded.

PRODUCTION AND DISTRIBUTION.

We ought to know that Adam Smith wrote this book, and it was very complete for the time at which it was written. The people who came after him were not so complete in their work and theories. The business man, the politician and the ordinary members of the community seized upon that part of the book which had to do with production. The steam engine and machines came along and these people considered that what was wanted was increased production and that nothing must stand in the way of production. So we get a somewhat one-sided economic practice in this country—everything had to give way to production. Anything that limited production, anything that limited the possibilities of the accumulation of wealth, must be

prevented from interfering with it. The pendulum swung towards production. This country was getting very rich and the whole Continent envied us. They heard of accumulations of wealth in England, but they did not know what was hidden behind the curtain. Not only had political arrangements and legal arrangements to give way to this cry for production but even humanity itself began to suffer. It became the practice to increase wealth by utilising women and children in the factories, and children of very tender years were working long hours under impossible conditions. Thus in addition to the accumulation of wealth we were getting the slums of the modern industrial town and all the hideous social problems connected with them.

The swing of the pendulum was towards production. That was the part of the new teaching that was attended to. Then came the natural rebound of the pendulum, and this led to the commencement of modern socialism. The consequences of that rebound were that as the one school had given all its attention to production, so the other school gave its attention chiefly to questions of distribution. Attempts were made to increase wages to improve the standard and well-being of the workers, nor was this in itself wrong. But the best system of distribution available is no good if there is nothing to distribute! There is the trouble; there is one of the blemishes in socialism. As an ideal it commands our

respect and attention. The ideals of socialism are of the highest, but the system as preached is usually impracticable. It concentrates on one side of a big problem. What we want is to get the best form of production, harmonised, well-proportioned, and satisfactory ; but at the same time there should be an equitable distribution of what is produced in wages, salaries, and profits amongst all those connected with the production of wealth. Even then, however, we have not gone far enough, for when we have harmonious production and equitable distribution, we must also have a temperate and wise consumption. When we study wealth we must study it as a whole ; its production, its distribution, its consumption ; and when we get these things wisely and well ordered in the State, we get a community in which the material conditions are as perfect as it is possible for them to be in this world.

POPULATION AND THE MINIMUM WAGE.

Chapter VII.

IN the last chapter we considered Adam Smith, the book he wrote and the effect it had. Since his time there have been many economists and many writers on the subject but very few have been able to make the subject so interesting, or have treated it so practically. At the present day we have a great man in France—Charles Gide, of Paris. His book is probably the most interesting to the ordinary reader, and no student can well afford not to read it. His "Principles of Economics" is translated into English. Gide, like Adam Smith, is a very practical man, and the section of his book on Labour, is a most valuable contribution to the thought of the day. Those who want to enjoy the study of economics and carry it further than can be done in a sketch like the present can hardly do better than read Charles Gide's book.

Some of our writers have made the subject very dull: they have treated it almost too mathematically, finding a formula for everything, and one is apt to get lost in a labyrinth, but men like Gide stand out as beacons, and their works are really great. The man who is

clear and lucid and interesting is master of his subject; this is pre-eminently true of men like Adam Smith and Charles Gide.

Adam Smith did his work. He wrote his book and it had very considerable effects. Naturally there were those who came after him and took up the torch and developed the subject. The world was passing through a state of transition at the end of the 18th and the beginning of the 19th century, but economists had not sufficient knowledge of the full facts of the changed conditions in industry brought about by the industrial revolution as we have. That great change intensified and modified many economic problems. The population began to increase by leaps and bounds; the old Poor Law system broke down and labour got into a difficult position. The Trade Union Movement came into existence, the first Trade Union being formed at the end of the 18th century. There thus arose a most interesting series of problems.

QUALITY AS WELL AS QUANTITY.

One of the most interesting writers on these new problems was Thomas Robert Malthus, who was born in the little town of Dorking, in the year Smith went over to France, 1766. Malthus lived till 1834 and thus saw a good deal of that transition period. He was a very capable thinker and in many ways a great thinker. He was educated partly in Nottingham. He went to Cambridge and took a degree and became a Fellow of his

College; he took Orders and became a clergyman. At one time he had a parish, and he was also a master of the East India Company's College at Haileybury. Malthus had been brought up in rather remarkable surroundings. His father, Daniel Malthus, was evidently a man of considerable intelligence, for he was literary executor to Rousseau, the great French thinker. The circle in which young Malthus developed was strongly Radical. As he began to develop he did not altogether agree with the opinions of his surroundings. He was a consistent, old-fashioned Whig most of his life. He discussed economic subjects with his father, and in those discussions one of the subjects that took his fancy and appealed to him very strongly had arisen in connection with the old Mercantile System. The old Mercantilists believed that a large and increasing population was a sign of national strength, but Malthus had doubts as to this. His conclusion was that what you wanted in a nation was not quantity but quality; it was all very well to have a large population if that population was healthy, intelligent, and capable; but mere heads were no good unless they had got something in them. There can be no doubt that in this he was right. He had read a pamphlet by Mr. Goodwin, he had studied the works of Condorcet, a French thinker, and he opposed his father in arguments on these subjects. He set to work to produce a pamphlet on the subject of population, and the result of his

work was the celebrated pamphlet in which he discussed the laws of population.

Mr. Malthus himself was a highly educated and a very respectable member of society. He treated his subject carefully, with circumspection and with justice. He gave us natural laws and explanations which have been of benefit and use to mankind. What he thought out for us stands substantially to-day. There were those who came after Malthus who dragged his name in the mire, but that was not due to him.

Here we have a very important subject, and if it is treated in a right spirit it may help us very materially. What was it Malthus saw? He looked round the world and he saw an extraordinary situation. The world had arrived at a most remarkable point in its social development, and a word of warning as to possible effects was urgently needed. If we undertake an investigation into economic or social problems, or in fact any problems, we must not restrict our attention to a circumscribed period; or solely to existing facts, So many investigators have imagined that the period at which they have arrived is going to be permanent. Nothing in this world is permanent; there is always change going on, and the only safe way to investigate economic and social problems in which one may make such dangerous mistakes, is to have as wide a knowledge as possible of history. We must know what went before. Have any conditions

like these ever existed before? What led up to them; what happened in connection with them, and what was the outcome? Such knowledge may be useful. If we simply take account of existing conditions and theorise on them we shall inevitably fall into error. We may produce some useful contribution, but the utility of that contribution would have been a hundredfold greater had we studied the past.

We have seen this in what happened during the war period. We have seen what went on during the war, both on the battlefield, at sea, and in home affairs, and since the war in industry and commerce. One would think that the world had never passed through anything of the sort before; that the world had never had such a testing. And so we find the Government picking out clever young men and giving them practically a free hand to solve certain problems; and in many instances these men have solved problems in a way that has led to loss. Had they, in addition to their cleverness, had knowledge, and known that certain conditions like the present and certain problems such as those that were handed over to them to deal with had existed before and that experiments had been tried and failed, they would have avoided a good deal that has caused us loss.

A CRITICAL SITUATION.

It may be leaving our immediate subject to discuss this point, but it is interesting,

because it enforces and strengthens the argument. This war period has been a very critical time for us. We were fighting on a scale such as we had never fought on before; our losses in the most valuable part of our population were greater than we had ever known before; our loss in wealth was great, and our loss in life was very great indeed. Consider for a moment the French war of 100 years ago and the condition of affairs that faced our grandfathers in 1797. There were then two great elements of strength this country possessed—its fleet and its wealth. We had Allies on the Continent who were fighting land battles—the Germans and the Austrians—and they were only half-hearted. The only way to keep them fighting was by sending them money, and we denuded the country of metal money to do so. The country was threatened with invasion, and just at the critical moment Holland and Spain joined their fleets with those of France, and our fleet was at a disadvantage. It looked as though it would have to keep to the ports and not show itself outside. The country had been so denuded of cash that the Bank of England found itself with a mere pittance in its vaults one Saturday night. The Directors met the Cabinet on the Sunday to see what was to be done. The Cabinet authorised them to suspend cash payments. The bank Directors met the London merchants on the Monday and explained the situation to them. There was plenty of wealth in the country, but there

was no cash to circulate it except by printing paper money. The Bank and the Government agreed and the whole country gave its support. Accordingly a suspension of cash payments was arranged for a couple of months, but the situation was so grave that it continued for over twenty years, and yet, owing to the patriotism of the people, the bank note fluctuated very little in value. We never had a situation like that, so far as our financial resources were concerned, during the past war. Although we experienced many hardships, our resources were never over-strained. There was much grumbling, but we could have gone on for months and even years without exhausting our resources. The financial state our grandfathers had to face just over a hundred years ago was much more difficult. Then, at the moment when things were so critical, when invasion threatened with the increased strength of the French Fleet, there was the mutiny at the Nore and our great bulwark seemed to be failing us at the supreme moment. We never had an experience like that in the past war. There was never any doubt about the fidelity of sailor or soldier. Imagine the situation with which this country was faced in that fateful year 1797! Nelson and Jarvis put the fleet right. Business men and bankers worked together to put the finances right and gradually with that bull-dog tenacity of the race which comes out during an

unparalleled situation the people pulled the country through.

THE LAW OF POPULATION.

Malthus took up the question of population. He knew what France had suffered; he saw what the conditions were in this country, and it looked to him as though things were in a very bad way indeed and that they would get worse. That was the only outcome he could see from the existing situation. Had he gone back for a couple of centuries and seen the different stages of transition through which the country had passed he would surely have realised what English character could do in a tight corner. His initial mistake was taking too restricted an outlook. But at the same time he saw the problem, and he did make clear for us the great laws affecting the increase of population which are of vital moment to us.

What he saw, looking across life, whether it was human, animal or vegetable, was that nature is very prodigal indeed of life. But that life once given has to be kept in being, and nature, which is so prodigal in bringing life into existence, is niggardly in maintaining it. There is a greater possibility of increase of life than in the increase of food to maintain that life. We can see the thing for ourselves in a very simple illustration taken from ordinary gardening. Most of us during the war period played about with allotments and grew cabbages and vegetables of all sorts to

help the food supply. Take as an illustration an allotment. We see people buying a quantity of seeds and sowing various kinds of cabbages, which come up in large numbers. If we take account of the cabbage seed which is planted every year in this country, we should have enough cabbages to plant the whole country. What happens to them? We plant out a few cabbages, selecting the best, and then we ask our neighbouring allotment holders if they want any cabbages. Perhaps they don't, perhaps they do; but there is a big surplus which is thrown on the rubbish heap. Nature is very prodigal in scattering the seeds of life and is niggardly in providing the necessary sustenance. That is what Malthus saw. He had a mathematical brain; he studied this problem in a simple form, and his conclusion of the matter was that it was possible for the population to increase in a geometrical ratio – one, two, four, eight, sixteen, thirty-two; whereas the food supply only increased in arithmetical ratio—one, two, three, four. And he concluded that in about twenty-five years it is possible for the population to double whilst the possible food supply increases 20% to 25% at the outside. That was his conclusion in looking across this country and Europe as they were at the end of the eighteenth century and the beginning of the nineteenth century.

What did he deduce from this? He was a clergyman and his theological training suggested to him a philosophy that he utilised in

connection with this. Man is here on this world undergoing a period of trial, and the needs of the body and the difficulty of getting the food, clothing and housing that are necessary to maintain a healthy body and the strength of the body are a great incentive to progress. If man could live without having to fight for his existence he would become anæmic. This is quite true; we can see that for ourselves. We look across the world to-day, and we see some races inhabiting countries where, as the hymn says, "every prospect pleases, and only man is vile." He only wants a minimum of clothing, he can almost go to sleep and not bother himself. We find in those countries where nature has been lavish of resources and advantages that the races inhabiting them become somnolent and are unprogressive. If we go to the other extreme and visit the arctic regions where the Esquimaux dwell we see the same thing—mankind there lives in a hopeless condition; there is no progress. Thus we see that where nature has been too generous to man he is unprogressive; where nature has been too niggardly he is unprogressive. We have to look for the great progressive races to those countries where there is a certain amount of resources and advantages, but which need effort and hard work to render them utilisable. Look at the food conditions and natural resources of this country. It is not that our race is *qua* race better than the Southerners; but it is

that we have been placed in a country where, if we put our backs into things, we can enjoy a fairly comfortable, in fact a very comfortable existence; where nature has been moderately kind and man has got just that spur which impels him to improve his condition. We find progressive races in temperate climes with moderate resources. That is the secret of our progressiveness. We grumble at our climate, and grumble at the country perhaps, but if we visit other countries we speedily come to the conclusion that, much as we grumble at our climate, and much as we grumble at certain conditions in our country, on the whole there is no place like England.

EQUATION OF SUPPLIES AND POPULATION.

Thus Malthus begins to consider how the food supplies and population can be equated. He was not the first man who speculated on these things. Hume and Adam Smith had done so, but they did not settle on this one subject to clear it up as Malthus did. What Malthus saw was that there is the possibility of an enormous increase of population, but there is a check to this tendency because you cannot get enough food to sustain the possible population. He saw that while mankind remained in a state of ignorance and did not consider these things, nature herself had provided checks to the growth of population —famines, pestilences, illnesses and ruthless wars to keep the equation between the population and food supply. That is what he tells us.

Now, he said, we ought to study these things, and we have come to a point where, in order to mitigate that misery, in order to get away from the necessity of these drastic checks we should study these subjects for ourselves and see what we can do in order that we may ease these cruel conditions of existence. And he came to the conclusion that what the world needed was to fix for itself a standard of comfort. He saw that many people had fixed a standard of life below which they were not content that they or their children should live. That was a real and a very great contribution to human thought and should be taken into very serious consideration, especially at the present time. We want to improve the standard of comfort at which the great average mass of people will be content to live, and we want to spur them to make that standard as high as possible, not in one country, but in all countries.

Things have altered greatly since Malthus's time. The possibilities of the increase of population may be as great as ever they were. What he said about the food supply was much too definite. Malthus looked at this problem and came to the conclusion that food supply, or the science of farming had got to a point at which it could not be improved much further and therefore that we could not expect a yearly increase of food production commensurate with the yearly increase of the population. But he was taking too restricted

a view. Arthur Young, a great English Agriculturalist, had been pointing out the advantages of studying scientific agriculture, of applying science to the farm. He knew the conditions both in France and in England. What has happened since Arthur Young's day? We have brought almost every country in the world under contribution for our food supplies; that was only possible by the improvement of methods of transport—railways and steamships. We have introduced marketing methods which enable us to deal in corn grown in far-off Canada, in America, or the Argentine Republic. By handling supplies in a scientific, well-organised way we can put corn, or flour produced from that corn, on the markets of the densely populated countries at a price very little higher than these things sell at in the countries where they are produced. Look at the change that has been made! The development of new areas and the extraordinary effect of making use of new inventions in the way of methods of transport in putting big quantities of food on the markets which supply the teeming industrial populations in countries which cannot produce sufficient corn to feed themselves. We only produce about 25% of our own food supply; we have to import 75% of it. Germany and other big industrial countries have to import 30% to 40% of their food supply. Cultivating new areas and improving transport and market methods is one factor towards bringing about an equa-

tion between population and subsistence.

But there is another: the chemist has come on the scene. He analyses the corn; he analyses the soil; he knows what the growing corn takes out of the soil. He knows what you have got to put into the soil in order to produce food to the best advantage. There is no longer room for rule of thumb methods. I remember last year listening to Sir Daniel Hall, the great agriculturalist, giving a lecture on this subject in which he showed how, by carefully selecting and crossing various kinds of wheats and analysing the soil and putting the right seeds in the soil, it was possible to produce a four-fold increase from a given area. Knowledge like that would have been useful to Malthus. Then a great chemist in the person of the late Sir William Crookes, began to realise the importance of nitrates in agriculture. Crookes calculated that on every square yard of the earth's surface there is in the atmosphere, in round figures 8 tons of nitrogen —just what the land needs to nourish it. How is it to be got into the land? The chemist set to work to see how he could combine the nitrogen of the atmosphere with certain other elements and produce fertilizers. If we go to Scandinavia we see how they have harnessed the waterfalls, producing enormous currents of electricity which are discharged under certain conditions into the atmosphere, and nitrogen is combined with lime and other materials, producing just the fertilisers that

are required for the soil. Within the last few years that industry has been established, thanks to the chemist and the engineer. Thus we see that if Malthus had not been quite so pessimistic he might have been able to work out a theory whereby the equation would have been obtained by increasing the production of food. "Can you get the food supply," we might have said to him, "to increase in the same geometric ratio as the population? If so, the difficulty is solved." We see how interesting all this becomes, when we know that these various points have a bearing upon this great problem.

IMPORTANCE OF A STUDY OF VITAL STATISTICS.

What Malthus saw was that the population tends to increase up to the means of subsistence: that the great mass of the people only get a bare existence and that great numbers die out. Of the remainder many live on a bare subsistence which keeps the mass of mankind alive, and that is all. There was great truth in his theory but he was much too definite. If we look at modern France we see a country which is, under normal conditions a very wealthy country; we get there a more equal distribution of riches than probably in any other country. In France, the people on the whole enjoy an average standard of living which is at any rate as high, if not higher than in this country. Many people live what we should call a penurious life, but in France there is not that mass of people on the

border line which we see in great industrial countries. France stands out as an example disproving one side of the argument of Malthus because there you have a country that is wealthy, and yet the population does not increase up to the means of subsistence. They have a standard of comfort below which they will not consent to live for they do not increase up to the means of their subsistence. The French population tends rather to decrease. If you take some countries you can get some very illuminating and interesting points.

For some years I made a study of the vital statistics of one of our great industrial towns where the Health Department publishes a very complete and interesting report every year with diagrams of the different residential districts of the town and surroundings. Some most illuminating information comes from a study of these vital statistics. For instance, we take up a volume for any given year and look at the births and deaths. We turn up the births for those parts of the town where the well-to-do business people and skilled artizans live, and we find that the birth rate is, compared with some other districts, low. The death rate is also remarkably low. Then turn to the slum districts where the submergeable people live unfortunately, and we find a much higher birth rate and a much higher death rate; but on balance there is a bigger increase of population in the slum than in the best

residential parts of the town. Between these two extremes we see the same rule operating. That is what we get in any one year, and it becomes more and more interesting if we take a series of years, including in our period both prosperous and dull times. In a year when, owing to great prosperity the unemployment figures are down to an almost irreducible minimum and there is any amount of business and wages have got to an abnormal height, up goes the birth rate in those slum districts, and so long as there is prosperity and money going into those districts the death rate does not get unduly out of bounds. These are all cold facts to our hand. We can see these vital statistics for ourselves. Then we take a bad year in which there is a great deal of unemployment and wages are low, the death rate goes up alarmingly; young children die in numbers. If we trace these things over several years, we see the truth of what Malthus tells us. As soon as money goes into some homes the birth rate goes up, for some people live up to the margin of subsistence. When money ceases to come into the home that extra population dies away mainly in the persons of young children. It makes one sad to study these vital statistics and to see the full import of them and realise the misery, pain, and grief that exist in the world because people do not know and do not care, but simply follow the impulse of the moment. Now follow the figures in other residential parts, where the wealthy and the

moderately wealthy are, where the well-to-do artizans live, and we do not find the same condition of things. All these people have fixed for themselves a standard of comfort below which they will not be content to live themselves or allow their children to live, but unfortunately we find a number of people in our towns who at present have not been influenced in that way, who live from hand to mouth, and they are the people who mostly suffer from a want of prevision, the want of a definite standard of living which would enable them to get away from a great deal of the grief and trouble and horror of life. It is easy enough to talk, but it is a very difficult matter to lay down rules for living in a slum. One has the greatest sympathy with those whose lot is cast there. At the same time our sympathy must not be sentimental: it must be sympathy coupled with knowledge.

A PROBLEM, AND THE WAY OUT.

The study of this subject will help us to realise what is at stake. These people are men and women like ourselves: they have their feelings, which may have been blunted by misery, by drink and other things, but some of them are there through sheer misfortune and from no fault of their own.

What can one do to help these people? Some say that we must abolish sweated industries and fix a high minimum wage and all will be right. Will it? If we do away with sweated industries and fix a high minimum

wage and compel employers to give high minimum wages, or the natural corollary, that is to ask the municipality or the State to supply that high minimum wage by dole, what will result? Unless the aims of this part of the population be radically changed we simply maintain it on a subsistence level. That is one of our great problems. What are we to do to mitigate this state of affairs? If we pour money into our slums and do nothing else we increase our problem. What is the way out of it? There is no royal road for it. You cannot abolish the slums by Act of Parliament or by a stroke of the pen. It is going to take us years to do that. You could set to work to wipe out the slums in Nottingham, Manchester, Birmingham, or any of our big towns; it is only a matter of money. Vote enough money and we could wipe out the slums. But these people have got to live. Many of them—not all of them—would make a slum of any place they went to; there is the trouble.

What is the solution? It is not the minimum wage by itself. No one can prove that the minimum wage would do it if it be left to operate alone. I do not think there is a person who would object to fixing it right off, no matter what the risks were, if it would solve the problem; but the minimum wage will not do it by itself. We have got to take these people and humanise them. We have got to educate them really, not cram them with book knowledge. Education does no consist in

cramming a child with book knowledge, it consists in the developing of character. We must get all the children in the slums and educate them, and in order to educate them aright we must have teachers with big sympathies. We want the best teachers in our elementary schools. It is not always the most learned teacher who is the best teacher. Robert Owen started a school for his work-people and their children. He was the first man to organise an infant school. He put in charge of his infant class a simple man who could not read or write, and people used to come from all over Europe to see the effect of this man's teaching on the children. He was a lame man of great sympathies who could influence children in the right direction.

A CHANCE FOR THE CHILDREN.

Some people, when theorising on these problems tell us that the adults are hopeless. They may be where the people are hopelessly inured to the slums and are vicious. Such people ought to be under restraint. They should be taught to be clean themselves and to live cleanly lives. If they will not do so they are a danger to the community and should be treated as such and kept compulsorily clean and made to live aright, in their own interests and in the interests of the community. But for the children we cannot do too much. Get hold of the children, house them properly, teach them properly, feed them properly, and bring them up to a high standard of living : put men

in charge of them like the late Dr. Barnardo, and if we have not room for these children in our own country, when they are trained and have reached an age when they can face the world, do what Dr. Barnardo did—send them to our colonies and place them well in a new country where they will have their chance. That is one of the problems that confront us in connection with population.

Do not be afraid to read Malthus's pamphlet. His main thesis is that the power of population is such that it is greater than the possibility to provide sustenance for it. In the past, he tells us there have been drastic checks—wars, pestilences and famines—to keep the equilibrium. These things have all caused immense misery in the world. We want to get away from that. The doctor is showing us how to minimise pestilences, the chemist is showing us how to minimise famine. Surely the problem is not an insoluble one. Malthus was too definite, but his main position is correct. By studying the vital statistics we can see their working for ourselves. Heroic remedies—doles and minimum wages, and other palliatives—may do more harm than good. It is a hard thing to say, but it is the truth, and the truth ought to be stated. That is what we may learn from the law of population, and it behoves us to study it, to realise what is the standard of living or comfort which should be inculcated in every boy and girl born into our land. So far as existing difficulties are

concerned, we have our responsibilities, and we have to answer for them in the long run. Looking at it from the purely material point of view, it should be our policy to face these unpleasant facts and put them right rather than let these problems continue unsolved.

WEALTH AND VALUE.

Chapter VIII.

ADAM Smith, as we have seen, produced a book which got into one corpus all the knowledge which had been floating about the world in a somewhat shapeless form up to that moment. He got hold of this knowledge and as it were digested it, co-ordinated it and produced his book. That book was hailed as founding a new subject for human inquiry and some people described it as a new science. The subject was political economy and the subject matter wealth. A careful reading of that book shows that Adam Smith considered wealth in a very broad way. He deals specially with its production and its distribution. Already there had been people who had written on economic subjects and they had shown in their writings that there were such things as economic laws. As far back as the sixteenth century Sir Thomas Gresham had noticed a great economic law in connection with the use of money, though he had only seen it in a very primitive way. To his successors this law had become better known, and it was given his name. During the eighteenth century there had been attempts to formulate laws in connection with rent and the payment of labour. Adam Smith

had taken note of all these things, had adjusted and co-ordinated them and then produced his book on the subject. Then a new man appears on the scene in the person of David Ricardo. He came of a remarkable family. His father had come from Amsterdam and had settled in London. He was a Jew of Portuguese origin. The family was connected with Spinoza, so that there was a distinguished element in the family to begin with. Young Ricardo left school quite early. He was only at school until he was fourteen. The literary part of his education had been supplied by "The Wealth of Nations," which he had read from cover to cover, and which he knew as few have known the book. At the early age of fourteen he went on the Stock Exchange. He began thinking for himself and on lines which separated him from his father. At quite an early age he had accumulated a sufficient fortune to maintain him for the rest of his life. When he retired from business he entered Parliament. He was highly respected and very honourable in his business transactions. He began business on the Stock Exchange at a time when a man who had true business instinct could make money, and he made it. He had made a deep study of "The Wealth of Nations," and his great ambition was to re-write the book and bring it up-to-date. He wanted to make political economy a real science. He saw that chemistry had become an exact science after passing through various phases of alchemy,

which led to advances and enabled the experimenters to get on surer ground. Thus eventually alchemy developed into chemistry —an exact science, which enabled a chemist to know for certain what would happen if he put two gases together in certain proportions.

LAWS AND SEQUENCES.

Now Ricardo wanted to be equally definite about what would happen under a given economic condition or situation. Given such and such things what will happen? He wanted to formulate scientific laws in connection with the material world. But as we all see, when we begin to study these subjects, there are great difficulties. There is the curious phenomenon, human nature, with all its subtleties and fluctuations. The material world may be definite enough, but man is influenced in so many ways. How are we to say what will happen? How are we to formulate laws and sequences which we can say will always be the rule? There was the difficulty and Ricardo realised it. How do other sciences proceed? How had the chemist fortified and strengthened his position and gained exact knowledge? Ricardo saw that to a great extent the man who had worked in connection with the exact sciences had made use of the method of hypothesis. Where they did not know they said: "Suppose that such and such is the case what will happen?" The method of hypothesis is a perfectly legitimate method if it be rightly used. Without the use

of hypothesis in many instances we can make no advance, but with a careful use of it and a careful testing of results we may make a very considerable advance. That is what Ricardo did. We need to remember, in reading Ricardo's book, that he makes use of this method of hypothesis. He says: "Here I am up against a complicated problem—human nature—and human nature is variable as the waves of the sea. What can I do to get something like certainty?" Thus he makes use of hypothesis. And for this purpose he set up as his hypothesis the economic man.

If we have a complicated thing to study we shall frequently be baffled. We may say we want to know what is the matter with the exchanges at the present time, and we start by looking at the money articles in the newspaper. We see the rates of exchange in various parts of the world in 1914 and we note what they are to-day. We consider what is written about them, we go from paper to paper and the further we go into the matter the more complicated and intricate it becomes. What are we to do? Surely we must try to simplify the situation and get down to the bed rock, strip off all the complications and find out what are the bed rock facts in connection with such a subject as exchange. When we have got there we can at our leisure consider the complications and see what effects they have. That is what Ricardo did with other economic problems under different conditions. He saw that if he

tried to take into consideration the millions of different temperaments of mankind facing economic problems, he could get nowhere at all, but that if he simplified mankind down to one sort of economic man, then by means of this hypothesis he could easily add the complications and make some progress.

"THE ECONOMIC MAN."

People are apt to make sneering remarks about the economic man. In this they reveal their ignorance. They do not realise what resulted from the use of this hypothesis. In scientific investigation Ricardo never meant that the economic man might be met with in real life. Charles Dickens has given us examples of something very like the economic man. Some people may think they have met him themselves, but Ricardo did not mean to say that there were such people. His position is that if that type of man be in front of an economic situation it may become possible to say what he will do. This economic man, used as an hypothesis by Ricardo, was a man who was absolutely selfish and would follow his own interests, never mind who suffered. He will be absolutely selfish and follow out what he considers to be his interest, never mind what happens. Thus Ricardo simplified the situation; he made use of hypothesis, and if we remember Ricardo's method we shall see how great his contribution was. Laws and sequences, not traced by previous writers, are stated quite clearly by Ricardo, and a good

deal of what he made clear in this way remains practically unchallenged and is useful to-day. For instance, he cleared up the subject of rent, he showed how it arises, he gives its history, and enunciates a theory which still holds the field.

The subject that these Economists dealt with was wealth. It is worth while considering for a moment or two what they meant by wealth, because people may be uncertain as to the use of the word. The users of words are not always correct; they use a word like wealth very loosely. The right and correct use of words is a thing to which everybody should give attention. We all come to grief by using words loosely. There are few words that are so loosely used as wealth, capital, and labour, and many similar words that we are frequently using every day.

WHAT IS WEALTH?

What is wealth? When we mention that word, the ordinary man immediately pictures something that is synonymous with abundance. He thinks of wealth as the condition that a man lives in who has a big income, one or two houses, some motor cars, and perhaps a yacht.

That is the ordinary idea of wealth—abundance. But that is not much good to the Economist when he is treating this subject scientifically. We want to know how wealth is produced, how it is distributed, how it is consumed. We know that the vast mass of

mankind are not in touch with abundance, and so, obviously we have to take account of wealth wherever it is seen and in any amount, either great or small. Therefore in trying to define wealth, we endeavour to get a short, clear definition which will include all that is necessary and exclude all that is unnecessary. There is no more interesting exercise for brains and intelligence than trying to frame definitions of simple things; there is nothing more difficult than to frame adequate definitions. Take wealth or poverty, a pill box or a medicine bottle, a book or a sheet of paper and try to write a definition of it. We shall find that we can easily fill a sheet of paper about each thing, but we want to get a sentence which gives you a clear definition of some simple subject. There is a book called "Money," written by the economist Jevons. At the beginning of that book, Jevons gives a delightful definition of a coin. If we were to try to frame a definition of a coin in one sentence we should soon find how difficult it is. I do not know how long it took Jevons to write his definition; it may have taken him a week and if it did it was well worth it. How did he define a coin? "A coin is an ingot the weight and fineness of which are certified by the integrity of designs impressed on the surface of the metal." That is a wonderful definition. It may have been a flash of genius, it may have taken him a week or a fortnight to think it out, but it was well worth it; and it

is well worth trying to write definitions like that of simple things.

WEALTH AND VALUE.

Now we want to get a definition of wealth. What is it? We read the economists and we see that they each have their ideas. John Stuart Mill gives a simple definition. He says that wealth consists of all those things that are useful or agreeable and have exchange value. Observe how inclusive that definition is. There is no indication of abundance. There is no necessity for any such notion.

Our object is to find out all about the production, distribution and consumption of wealth. We take a sheet of note paper that has been produced. Even at a time like this we get perhaps three sheets for a penny. Each sheet of note paper is a useful commodity and it has exchange value; it is part of the subject that we have to explore, analyse, and consider. So is a single pin, so is a Rolls Royce or an Atlantic Liner which to-day may be worth a couple of millions of money. We see how much better the economists conception of wealth is than that of the ordinary man in the street who merely thinks of abundance. Very few of us know what abundance is; we most of us could do with a good deal more wealth than we have, and we think a great deal more about the restrictive side of our wealth than the expansive side. The economist takes cognisance of all that. The single sheet of paper or the

single pin are not too small for him to recognise, and explain their being and all connected with them. That is his business. Thus we have got our definition—wealth consists of commodities having exchange value. That definition helps us considerably.

What is value? This brings us in contact with some of the most important phenomena connected with our subject. Theories connected with value that were established and enunciated a century ago are vitally affecting us at the present time. The present industrial friction and class warfare are mainly due to misconceptions on these subjects.

Adam Smith looked on value from two points of view: a commodity may be useful to man; this gave it use value. But we may want to sell that commodity, or exchange it, so as to get something else, thus there are also exchange values. Adam Smith perhaps does not clear up the subject of value as fully as he might have done. Ricardo, however, made some useful additions to Smith's conclusions. He allows that there is such a thing as utility value, but he says that he will rather be concerned with exchange values; that is the ratios and values of different commodities in comparison with each other. Thus we get an idea of exchange value, and by means of a standard of value we are enabled to compare commodity with commodity. If one commodity is worth 8/- and another 4/-; we say that one commodity is worth double the other. Ricardo

examines into the subject of value and produces a theory as to its cause which had momentous effects. This theory has been taken up by different schools of thought, and has been somewhat perverted.

There are numerous theories as to the cause of value, but these theories can be divided into two classes; one class connected with man's needs—man requires a thing and therefore it is of value; and the other class bases value on man's efforts. Man works at a thing, puts labour into it, and that gives it value. Ricardo's theory favours the second class and seems to imply that the cause of value is labour.

THEORIES OF VALUE.

It is worth while in passing to look into these theories of value, to see what they are, to criticise them and so obtain knowledge on the subject. We find some people saying that value is caused by scarcity; if a thing is scarce people will value it, and we are tempted to think at first sight that that is correct. Gold is scarce, therefore it is valuable. Autographs of Shakespeare are scarce and they are very valuable; that must be right. But when we get below the surface we find that there are certain things that do not fit in with this theory at all. We can obtain simple illustrations which explode this theory that value is caused by scarcity. If a man is giving a dinner party in February and he wants to regale his friends on strawberries and cream he would

have to pay a considerable amount for strawberries because they are scarce, being out of season. That fits in with the theory but it only does so for the moment. The year goes on and in June and all through July and August you may get a bumper crop of strawberries and everybody eats strawberries until they are tired of them. Then October and November come. Now we are told in February that strawberries were dear because they were out of season and scarce. In October and November nobody wants to eat strawberries; they have had enough of them for six months. The season is over; they are just as scarce but people are not wanting them; they are not the same price as in February. You can apply that last argument to numerous things. Scarcity alone is not sufficient to explain value.

Another man says, a thing has to be useful or he will give nothing for it. Man needs the thing and that gives it value. But although that looks so complete at first, the very moment we get below the surface and consider things we see that this explanation is not sufficient because some of the things man needs most he gets for nothing, for instance air and water; so that explanation does not meet the case.

Then we come to the theory that value is caused by labour, and there is a good deal to be said about it. If it were true the world would be founded on a system of equity and justice;

a man's fortune and well-being would depend on his efforts or on his labour, because if he expended labour he would be making value all the time. We see at once that there is something wrong about that, in fact the theory does not work. But we may say if we go to So and So to make us a suit of clothes, the cloth has cost him so much, and this represents the cost of the raw material and the labour put into it to turn it into cloth. Then he has a skilled cutter who cuts out the suit and skilled tailors who make up the coat, vest and trousers and there is the suit, and the bill we pay is really made up of labour. The value of the suit consists mainly of labour. It almost looks as if the theory is sound, but it does not fit all the conditions and all the phenomena that we can bring to test it. There are certain manufactured things that give colour to the idea that the exchange value of a thing is dependent on the labour put into it; but it will not hold water all round, and we must have something which will hold water all round, or we cannot accept it. We want some one thing that explains what is the cause of the value, and we find that labour alone is not sufficient.

We say to a man: "Make a chair," and he makes it, and when it is made it is sold for ten shillings. We are told that the value of the chair was caused by the labour put into it. That chair might have been priced at ten shillings in the shop, but the same chair at a spring sale may be marked 7s. 6d. or

5s. to get a ready sale for it. The value has gone somewhere. We have not lessened the amount of labour put into the chair, although we have lessened the price. We cannot lessen the amount of labour put into the chair once it is made, and so we realise that the theory will not work. We walk round a town and see prices marked up in the shops, and we know that once or twice a year there are sales where we can get great bargains. There is the same amount of labour in the articles sold as ever there was: the labour has not been reduced although the price has.

THEORY OF LABOUR VALUE.

We also know that certain things have value where no labour has been expended on them. For instance, there is one of our great public schools, the endowment of which has been very severely affected by the war, but in the landed property belonging to that school there was an area which had been considered waste land, and produced little rent. It was however discovered by a geologist who was looking round to find minerals that this land contained some valuable deposits of iron ore. A seemingly valueless piece of land assumed a great value, and could have been sold for a large sum of money, although no extra labour had been put into it. If we were wandering in South Africa and picked up some hard substance which turned out to contain half an ounce of gold worth between £2 and £3, there has been no labour put into that gold, and yet we

have something of considerable value. So the labour theory does not explain the cause of value. We may not like it, but there are many unpleasant facts in life, and we have to reckon with them and order our lives accordingly. Labour is not the cause of value. We may by labour render certain things more valuable, but that does not say that the cause of value is labour.

If we set to work, as some men have done, and go on for twenty years making a beautiful machine, the working parts of which are splendidly made and all the bearings most carefully adjusted, it may be that the machine is an attempt to find perpetual motion. A great deal of highly skilled labour has been put into it, but at the end of twenty years what is the machine worth ? A few shillings may be offered for it, or we may put it in a museum to show what had been done, but the amount of labour put into that machine has not given it value. Or we may take two men of the artist profession, and we could by quite an interesting experiment get two painting canvasses and get two sets of colours and brushes exactly the same, and someone to sit as a model, perhaps some well-known public man whose portrait we want. Two men, say Sir William Orpen and an unknown painter, paint the portrait. They both work with the same materials on the same subject and are given the same time, and they both produce a picture. When they had finished, one of the

portraits would be worth a considerable sum of money, but the other would have had the same amount of labour put into it, yet there is great value in the one and very little in the other. We see again that this labour theory does not explain value. Considerable thought has been given to this subject and the best conclusion is that the cause of value is usefulness coupled with limitation in supply. If a thing is useful and the quantity available is limited it will have value whether there is labour in it or not. Labour might make it more valuable and might make it more useful, but there may be a great deal of value altogether apart from the question of labour. If a thing is useful to us and there is not enough to go round, it will have value, and the more useful it is and the less there is of it to go round the more valuable it will be. Thus there must be utility and scarcity; these give us a simple explanation of value. It is not labour alone, it is not scarcity alone, it is not utility alone that is the cause of value. Ricardo said that labour was the cause of value, but he did not use that word labour in the ordinary sense in which it is used. To him labour meant human effort of every kind. Before he died Ricardo modified his pronouncement on the cause of value, but he did not re-write his book. Thus if we take it as it stands and as it has been taken by people who have come after him we gather from him that labour is the cause of value. We should, however, take

that word labour in the economic sense of the word—human effort. The economists tell us that if we want to produce wealth there are three things without which we cannot do. We must have land, a place to work on: we must have our own or somebody else's labour, and we must have tools, raw materials and something to keep us going while we are making goods, and we get the reward for our work, these are capital, We cannot proceed without these factors—land, labour, and capital.

LABOUR—A COMPREHENSIVE TERM.

What does labour include? Labour includes the whole human effort required in production—organisation, supervision, designing, and the men who carry out the work that has been organised for them. All are included in that term labour—the whole human effort required to carry on production successfully. Now certain modern thinkers who take up this theory of Ricardo, not only use it wrongly but make a modification. They say that value is caused by "manual" labour and not that it is caused by the whole of the human effort required, If we go down to the market places and parks on Sundays and listen to the orators there, we hear it repeated over and over again that labour produces all the value, that labour produces all the wealth and yet there is a small wealthy class who defraud the worker of the wealth that he alone has produced. It may do so. I am not saying it does not. But

the men who declare that labour produces all the wealth and value, refer either to Karl Marx, or through him to Ricardo. In this they are begging the question. They do not think the thing out themselves. They say "So and So said it and therefore it must be true." That is a line of argument we must guard against. Do not accept the authority of anyone without consideration. Vital pronouncements of that sort may have a vital effect upon the well-being of the community. Do not say that Karl Marx, or Adam Smith or anybody else said something and therefore it must be true; let us always test such statements for ourselves. It can easily be done. And if we study and test things for ourselves we shall make some advance.

Chapter IX.

THE FACTORS OF PRODUCTION

(i) LAND.

THE economist having defined wealth and having decided that it consists of all useful commodities which have exchange value, pins himself to the consideration not only of large quantities of those commodities but to any quantity however small. He wants to know how it is produced, how it becomes available for human use: how, when it is produced, it is distributed, and how, when it is distributed, it is consumed. We shall see that he comes to this very useful and interesting conclusion, that where there is a community understanding these things, where the production of the useful commodities needed is carried on in the best possible way, and what is produced is equitably distributed among those who are responsible for its production, and then, when these commodities come to be consumed, they are consumed rightly and temperately, the economist declares that there we have a model community. It is worth while thinking out what that statement means, especially at this present time of reconstruction, when we are building up after a world-shaking crisis and stress of war.

The economist, then, first of all turns his attention to the production of useful things that we need for our well-being: and he finds that there are certain factors that are absolutely necessary if we want to make useful goods. He finds that we must have a place whereon to work. If we want to grow crops we must have land to till, or if we wish to build an Atlantic liner we must have a shipyard wherein to build the ship. If we want to carry on textile work, lace or hosiery, we must have a place for our factories: or if we wish to carry on the commercial side of business, not the making of goods, but the marketing of goods, it is necessary to have some piece of ground whereon to build our offices. Thus we must have a place whereon to work. This gives us the first factor—land. And then he says, when we have got the place wherein to work, we must have somebody to work: we require some human effort, and he calls that labour. It may be our own: it may be our own assisted by other people, but we cannot do without human effort. Nothing can be made without it. He looks at these two factors and sees some rather remarkable things. Both of them are active in producing wealth, and so the economist declares that these factors are agents. Neither can do without the other, and both do something actively. We readily agree that land does something actively when it is producing food or raw materials. We know when we see a good crop that there are

qualities in the ground which are taken up by the seed and lead to the increase. The land does something actively. If we put a very clever cultivator on a poor piece of soil he can only raise a poor crop compared with the crop that can be raised from really fertile soil. The soil has something to do with it. And so with shipyard, factory or office, although we may not have thought of it, the land has something to do with our success. In connection with agriculture it is mainly the fertility of the soil which tells: the position has something to do with it, but it is mainly the fertility of the soil which tells in connection with our work; but with our office or factory, it is position that counts. Any business man knows the advantage of having his office conveniently situated. Any consulting doctor knows the advantage of paying extra rent in order to have his consulting room in Harley-street, London. The position brings him additional income. If that same doctor was in an equally good house out in the country he would make a comparatively small income: put him in a house in Harley-street at ten times the rent of the country house, and he will make a large income with very little difficulty. His own skill does something, but it is aided by the position of his consulting room.

It is the same with a retail business. Some retail shops are remarkably successful, others are the reverse. The business acumen of the shopkeeper has a good deal to do with

it: but if we were to take two shopkeepers of equal skill in their business—for instance as confectioners—and we put one on Long Row where there are hundreds of people passing up and down, and we put the other in an equally good shop in a back street, we know what will be the result. The second shopkeeper may be an equally good business man, but he wont make the same profit, nor will he do the same amount of business. The position of the shop has something to do with it. And so the economist says that land as well as labour does something actively in assisting the growth of wealth: they are both agents.

THE FACTOR OF CAPITAL.

Then he says there is something else wanted. "If I am growing foodstuffs on a farm, or raw materials, or if I am mining minerals, if I am building a ship or producing lace or hosiery, from the time that I commence my operations on the farm, and from the time that I begin to get my raw material into the factory, until I have something ready to exchange, there must elapse a period of time, more or less considerable, and during that period I and my assistants must have the wherewithal to live. We require raw materials, the farmer requires seed and manure: the textile manufacturer, cotton and other raw materials—all require some machinery to assist in the work. Now these things that are necessary to keep the worker going, and to keep the industrial army at work, enabling

them to produce these things are called capital. Thus we have a third factor in production. The three factors in production are land, labour and capital.

We have seen that land and labour are agents because they are actively doing something. Capital differs from these other two factors. It is a factor without which we cannot carry on under modern conditions; without it mankind has not been able to carry on business for many many centuries. Man lived a very difficult and a very hard life before there was capital available. But whether it is a bag of flour out of which you make bread to sustain life, or a tool or a machine that will help to work up the raw material, or the raw materials themselves, all these thing which we call capital can do nothing by themselves. They require setting to work in some way: they require some active, outside agent to deal with them. So capital is not an agent, it is an instrument which is set to work by some outside power. The outside agent that sets this instrument going is the hand of man. And so we have three factors of production, two of them are agents, one is an instrument. Concerning these three factors there is a good deal of misconception, especially at the present time. Although we have been studying economics for so many decades, and although interest in the subject has become intensified during the last twenty or twenty-five years, there is still a good deal of misapprehension;

perhaps there was never more misapprehension on this subject than there is to-day. That is why it is desirable that we should give attention to understanding some of the fundamentals of this subject. There is hardly a newspaper we take up in which there is not some mistake made in connection with the simple elementary facts of economics ; for instance, there is no subject on which more nonsense is written or on which there is more misconception than capital.

We can now discuss these three factors and the phenomena arising out of them and look at the various problems which have faced the world during the 19th century, some of them being very insistent even at the present time. Without knowing those elements the problems will remain insoluble to us, or at any rate there may be very great danger indeed by suggesting or attempting to carry through solutions of problems which can only lead to disaster. If we understand the elementary facts and the phenomena arising out of them, we shall be well equipped to criticise the various points that may be put before us in connection with this present period of reconstruction.

There was a meeting recently held in Nottingham at which those present were invited to approve the policy of Germany in their enormous over issue of paper money. "But the mistake we have made," said the lecturer, "was that we have commenced deflation. Germany is prosperous, all their mills,

and factories are hard at work; there is no unemployment because Germany has boldly printed thousands of millions of marks' worth of paper money." Does that commend itself to us? A study of the subject should show us what a suicidal policy Germany and other countries are following by permitting the emission of all these millions of marks or roubles of printed paper. We should support those experts who persuaded the Government to be honest and to practise a system of deflation which will enable the country to take its proper place in the commercial and industrial world when normal times return.

ECCENTRICITIES OF LAND.

We have three factors of production and there are certain phenomena arising out of them. We will consider them in order. First comes land. We find the very moment that we turn to consider the question of land, that so far as agriculture is concerned and the production of crops, there are different qualities of land, and that in different places, land will do different things. First, it looks as though land is a very eccentric sort of thing. We find land in temperate climes producing cereals and food stuffs with which for long centuries in a country like this we have been familiar. We find that for a considerable time now we have been able to supplement the products of our own land by means of products from lands enjoying a different climate and different temperature. We have been able to vary and

improve our diet and to make life more enjoyable. We also find that some land in the same country, or land which looks the same, has different qualities; that within a stone's throw almost we have land which looks the same, but one area will produce very much more than another. Some years ago I got out a report for a meeting of the British Association at Leicester. Mr. Jesse Collings was going to take up the subject of small-holdings. One or two economists were to go into the theory; Mr. Collings, Mr. Yerborough, and one or two others were taking the practical side; and I was to visit some of the areas they were going to deal with and look into the matter from another point of view. I got an introduction to a very interesting estate agent in Worcestershire who knew the country well and who was most kind in giving me the benefit of his experience. We drove to a farm where we walked across a field divided by a footpath. He said: "What do you think about this land?" I said: "I don't know anything about land; it looks to me good rich land." He said: "There is a remarkable thing about this field. Look on the other side of this footpath: do you see any difference?" I replied: "No; to my eyes the land on the other side looks exactly the same." "Well," he said, "the land on the right hand side of this path is only worth half the rent of the land on the other side: the line of demarcation is as near as that." He was pointing out the eccentricities

of the land on either side of the footpath; on one side it was poor, and on the other it was worth a great deal more per acre. Thus there are areas of land with various degrees of fertility which produce differently in return for the labour and capital expended.

NATURAL LAWS CONSIDERED.

But there is another point that comes out, and that is, that if we take a piece of very good land that has never been cultivated before and we plough up this virgin soil and begin to get crops from it, we can from year to year, and with careful cultivation, get an increased crop each year. Thus is appears at first that the possibilities of increase are unlimited. We go on year after year and in normal years we find a steady increase. Some people, noting this fact, say a good deal about the increase in returns from land. We find that when we come to deal with land in an old country like ours, where the land has been cultivated for many generations, from a given area we can get an increasing return for a certain time, but at length we reach a point at which with very great care we may get a greater crop, but that crop has been obtained with greater difficulty and it yields less per unit of cost. Thus there is a very interesting point in the history of the cultivation of land, and that point is known as the point of diminishing returns.

In connection with land there are two natural laws that we need to understand if we

are to use our land aright. The cultivator and the owner are both affected. To work the land aright these men must know the laws which affect it. They are not laws that have been passed by any Parliament, they are natural laws, and they exist whether we like them or not. In economics there are a number of those laws connected with land, with the use of labour, with the use of capital; laws connected with money and currency. These laws can be studied, and advantage can be taken of them by having knowledge of them.

Let us consider two natural laws connected with land. The first is the law of diminishing returns, and the second is the law of rent. John Stuart Mill made the law of diminishing returns clear. He had a simple little illustration which we can use in considering this subject. He said the return from land is in one way like a good piece of indiarubber for you can stretch it because it is elastic so far as its productive powers are concerned. If you get an elastic band of really good quality and you take it in your two hands and begin to stretch it, at first you can stretch it quite easily; there is no difficulty or increased effort, but you finally come to a point where you have to increase the effort, but the point where you cannot stretch it any further takes some time to reach. There you have the point which you can liken to diminishing returns in land; you can stretch its productive powers

very considerably, but in time you come to a point at which the return is less per unit of effort.

We can get an illustration of this. If we employ ten men on a hundred acres of land which has just got to this point of diminishing returns, and these ten men produce a crop of a thousand quarters of corn; when a division of the wealth produced is shared, they should get 100 quarters each. What the law teaches is this. Suppose we have arrived at this point of diminishing returns we may still get an increased crop from that land by putting increased labour or increased capital into it. Suppose that twelve men set to work on the same 100 acres and produce a bigger crop, say 1150 units; on a division of the wealth where ten men got 100 units each the twelve men only get a little over 96. We produce a bigger crop, but when it is divided amongst twelve men, there is less per unit. That is what the law says; and if we were to put three additional men on that same 100 acres we may get 1300 units as a result, but there will be less per unit when it is divided up. That is what theory says. Does practice support it? If we go to new countries such as America or Canada we find many instances of increasing returns; but if we go to old countries we find a different story. If we go to some of the very fertile parts of Europe, for instance Westphalia, where the land has been parcelled up so that we get very intensive cultivation indeed, we

find the people living on the land under very difficult circumstances, because although there is a greater amount of production, when that output is divided up amongst the units required to produce it, the amount per unit is comparatively small. Ten men may live in comfort on 100 acres. But if 50 men come along they may produce a very much bigger crop, but they will live on the land under conditions very different from those of the ten men. Practice bears out the theory when put to the test.

DIMINISHING RETURNS.

That is rather interesting, and there is a good deal for the farmer to learn from it. He perhaps ploughs up a field and puts it under some crop, and he begins getting bigger crops year by year in return for the capital and labour expended. He says one year: "I am going to put in a still further dose," and he finds, although he gets a bigger crop still, that the expense of producing that crop has so increased that it would have paid him better to be satisfied with a smaller crop.

If we turn to marketing conditions the law is a point that farmers have got to bear in mind. A farmer not only wants to know about cultivation, but he needs to know also something about marketing conditions. His experience tells him, knowing these facts, how much capital and how much labour at a given time to put into given land for given crops. The law of diminishing returns, too, teaches a great deal which is not only true in the pro-

duction of crops, but it applies to the production of minerals. If you have an area from which you can obtain iron ore. At first that iron ore may simply be on the surface, it can be shovelled up and put into trucks. It is cheap, easily obtained, and there is a great demand for it The deeper you dig, or the more you get from the surface the greater is the effort required and there is a diminishing return per unit of effort. That has been seen in America at those very remarkable ore resources in the Lake District. At first it was merely a matter of running rails on the surface and employing steam shovels to pick up the ore, but when the demand for that ore increased to millions of tons annually and they have to work the deposit at a lower level that ore is only obtainable at greater cost—the law of diminishing returns has begun to be felt. We therefore see at once that this law is of great importance, and is easily traceable in mining operations. We can find out from statistics and the practical experience of those who have it, that this law very closely affects the farmer and the colliery owner.

To what extent does the law affect manufacturers? Here we come up against a very interesting part of our subject. Under modern conditions there seems to be a continually increasing return so far as manufacturers are concerned. If I have an order for a dozen chairs a week I can produce those chairs at a given cost and make my arrangements accord-

ingly. If I can get a regular order for a hundred of these chairs a week, I can very considerably reduce the cost by applying division of labour, and there is an increase in return. But the law we have been discussing does affect manufacture and affects it very closely. Some years ago an economist went into the subject, and he took as an illustration 5s. worth of raw iron. He found that if converted into rails that 5s. worth of iron would be worth 5s. 6d.; if it was turned into horse shoes it would be worth about 23s.; if it was turned into penknife blades it would be worth considerably over £100: and if it was turned into watch springs it went into thousands of pounds. Thus if, owing to the action of the law of diminishing returns, the cost of raw iron goes up 10% the price of rails will be considerably affected, horse shoes will be somewhat affected, but it won't affect the penknife much, nor will it add much to the cost of the watch spring. What do we gather from that? That the further you manufacture raw materials, that is the further you get from the raw material in process of manufacture the less is the law felt. That law affects raw materials and all commodities closely allied to raw materials. The further we get away from the raw material the less is the effect of the law felt. Roughly and sketchily that gives us the law of diminishing returns—how it affects the producer of raw materials on the one hand and the manufacturer on the other. It is well

worth studying.

THE LAW OF RENT.

Then we come to the law of rent. David Ricardo was the man who clearly stated the law of rent. It was known before, but he was the man to put the finishing touches to it. And practically the law of rent as he enunciated it stands unchallenged to-day. Ricardo traced the history of rent and gave us a measure of rent. Ricardo made use of hypothesis, and by this means he simplified economic problems. When he came to consider rent in a country like this he found that there was an immense number of complicating circumstances. He must get rid of these if he was to find out about pure economic rent. So he set to work and used hypothesis. First of all let there be free and open competition in the letting of the land; secondly, all farmers should be of equal skill as cultivators; thirdly, that the farmer should use his own capital; and fourthly, that pure economic rent should not contain anything which would really be interest on capital. He set up these hypotheses and got a simple situation in order to see what would happen. He defined rent as the payment made by the cultivator of the land to the owner of the land for the fertile qualities of the land. How does rent emerge? There is a time when no rent is paid. There are certain parts of the world to-day where you can cultivate land and pay no rent. There is certain land you can get for nothing even in this country. There are

many parts of farms that are not worth any rent; they are thrown in with the rest of the land. To answer our question, let us imagine a small primitive agricultural community.

We will take a small area of land round the village and suppose that this which we call A is exceptionally good land; beyond the village there is B land of good, but not quite so fertile quality, and C land still less good. The community living in the village require a certain amount of food during the year. That food can be produced at first on half the A land, and to express it in our way of stating things, we will suppose that corn produced on A land sells at 20s. a quarter in the village market. So long as that half of A land is sufficient to supply the needs of the people no rent will be paid. The phenomenon rent has not emerged, and so long as there is more good land than is wanted, no one will pay rent for land. But the community grows and doubles its population; then more land is cultivated to supply the needs of the community. The price based on cost of production on A is 20s. a quarter, but the population of the village grows and they have to put some of B land under cultivation to get the necessary food supply. Now as B land is not so fertile it costs more to grow corn on it. We will suppose that on B land it costs 25s. a quarter. What happens? We are cultivating for the one market land of two qualities. There are some interesting things about markets. You

can only have one price for one grade of commodity in one market at one time. If I want 20s. a quarter for my corn and you want 25s. for yours, everybody will buy of me so long as I can supply them and they won't buy of you; but if the market requires both your 25s. and my 20s., I am not going to be so foolish as to sell my corn at 20s. In other words as there can be only one price in the market at one time, the moment that B land comes under cultivation the price of corn goes up to 25s. and the people who are cultivating A land are 5s. per quarter better off than the people who cultivate B land. Ricardo tells us that if the cultivators are all equally skilled then the 5s. is not due to the human agent but to the extra fertility of the land. It is the poorest land cultivated for a given market that regulates the price of the food supply on that market. And so we find that when all B land is taken up so that C land has to be cultivated and the price of corn goes up to 30s., A land will bear a rent at the rate of 10s. a quarter of production, and B 5s. The land which it only just pays to cultivate to supply the market is called marginal land. This bears no rent and serves as a measure of rent for all land supplying the market. If we know the cost of producing corn on the marginal land, we have got the measure of the pure economic rent.

Ricardo was careful to tell us that we must not include in pure economic rent anything that was really interest on capital.

Take a farm in England of 200 acres of which the rent is £400 a year; would you be right in saying that the economic rent was £2 per acre? No, you would not. A farm in England let at £400 per annum includes the farm house, stables and other outbuildings, hedges and ditches, which means that capital has been put into that land, and made it more valuable. Land that has been drained and brought into a good state of cultivation is worth more rent, as we call it, than land which has not been brought into so high a pitch of cultivation. Into the former, capital has been sunk for making ditches, draining, planting hedges and constructing buildings, and on that capital interest has to be paid. Therefore the £400 that you pay as rent for the 200 acres includes a great deal more than the pure economic rent. But if we get the advice of a skilled estate agent who understands all about that farm of 200 acres, he could take us over it acre by acre and give us its value. We could analyse the whole thing, ascertain what was the value of the improvements, how much capital had been sunk in buildings and, by the process of analysis, get the pure economic rent of the farm acre by acre. We should find that some of the land was worth no rent at all, and some of it would be worth a few shillings. At the other end of the scale we should find some land which would be worth a great deal. The whole thing is represented by a sum including both eco-

nomic rent and interest on capital sunk. Thus Ricardo in his theory of rent gives us the history of rent, shows us how it originates and gives us a standard for calculating rent. We shall find that the marginal theory is made use of in other directions as we go on to consider other factors in production and the phenomena arising out of them.

RENT—AN INCLUSIVE TERM.

The Law of Rent and the Law of Diminishing Returns are two natural economic laws which cannot be repealed. Suppose, for instance, we returned to Parliament a majority of people who did not believe in rent, and who when they got into Parliament abolished the payment of all rents, would that abrogate the law of rent? Not in the very least. What it would mean would be that certain individuals who have the use of very highly fertile land would, thanks to no work or skill of their own, be presented with a very considerable annual sum, and the people who had the less good land would get a rather less considerable sum —but still something worth having. The rent would be there in the income these men made in farming operations. They would then get not only a reward of their own skill and interest on any capital they might employ, but also the share that was due to the land in the production of corn. I do not say that if that land belongs to a land-owner, or to a hospital, or church, or university, that that proves that the individual or corporation has any right to it. That is another question.

The farmer cultivator *per se* has no inherent right to it. It is the part that is due to the land in producing the crop. Some people might say that a sum like that ought to belong to the community. We may consider that further on. What we have been considering is the pure economic rent of land as the first step in understanding some agricultural problems that are before the world. Rent is not something that we can abolish. Somebody gets it. You may give it to some favoured group in the community, but you cannot abolish it. The law of rent operates; as soon as we cultivate land of two qualities to supply the same market rent emerges. Where you have land of many qualities supplying the same market there are many grades of economic rent. If you are the tenant of a highly cultivated farm you are bound to pay for its use. What you pay as rent includes the pure economic rent plus interest on the capital sum spent in bringing that farm up to the point it has reached as a producing unit.

Many years ago, Mr. Henry George wrote a most interesting book entitled "Progress and Poverty" and he dealt in very considerable detail with the problems we are here discussing. He took one of the great American cities and showed that the site of of this city was originally merely prairie land; then it became farm land and was worth a few dollars an acre to purchase, or was worth a small sum to rent; but at the present time, thanks

to an enormous growth of population and to becoming an important town and a big exchange centre, large sums in the way of rent are paid for a few yards of this land, which not many decades ago was prairie land. He declared that the whole of this wealth is created by the community and should belong to the community.

RIGHTS OF PRIVATE PROPERTY.

We in England, have an old-established civilisation, and an old-established civilisation is not an easy thing to modify at any time. A revolution in an old civilisation may be a very terrible event. Our social system is based, so far as the problem we are considering is concerned, on a recognition of the rights of private property and the sacredness of contracts. "But," say certain people, "here you have the fortunate possessor of an estate which, in some instances, through no work of his, no policy pursued by him and his forbears, has become of very great value. In some instances the existing value has been added to this property in quite a short time: surely that value should be taken by the community." That problem was before the community some few years ago. We do not hear quite so much about it at present. We have tackled that problem in a way supremely our own. To a certain extent the theory that the State should take unearned increment is a double-edged weapon. If we look at certain areas, there is undoubtedly very considerable increase in value. We

must, however, look much more broadly at that question and we shall realise that whilst some areas increase enormously in value, there are some areas which decrease in value. To give an extreme illustration. Our coasts in certain districts suffer from erosion, and what were at one time quite valuable estates are now under the sea. If we take one of our large landowners and exact from him unearned increment, he has a right, if he has suffered loss on other property, to ask that the whole of his estates shall be taken into consideration, and where there is loss there shall be compensation.

In this country we have got round this difficulty to some extent. We were dealing with it in a commonsense British way when the war broke out, and were feeling our way to a just and equitable solution of this very difficult question. Our solution was the development of a scientific system of taxation. In the nineties Sir William Harcourt brought in his famous budget which remodelled the death duties. That was the beginning, and that policy has been still further developed. We were getting experience, and when things become normal once again we shall be able to apply that experience and find a solution for this very difficult problem without a revolution which might well mean disaster. By means of the death duties, when any one of us is foolish enough to die, our executors have to make out a full inventory of our possessions. Those

possessions are valued as on the date of death. If I have been fortunate enough in my lifetime to buy a piece of property, say for £1,000, and either through the growth of the town or the discovery of some mineral on the site, that property at my death is worth ten times as much, by the death duties a considerable part of that increment is taken from those who come after me. That does not happen only once, but it goes on each time the property changes hands. If people are foolish enough to die too frequently their property soon melts away. Our policy of taxation is only in its infancy. The war burdens are such that we have to make Herculean efforts to meet the interest and sinking fund. It will be years before we get back to a normal budget, but still as things become more normal it will be the duty of the Chancellor of the Exchequer to give his attention to the framing of budgets that will enable us to get our fair share of unearned increments by this very certain weapon of taxation. The policy may be made just and equitable. Each time an estate is valued there is both the loss and gain calculated, thus the death duties are based on what actually exists.

Taxation is a most interesting subject and its elements ought to be familiar to every citizen.

LABOUR.

Chapter X.

The next factor in production which we have to consider is labour. It is an exceedingly difficult subject. Its discussion may lead to a good deal of misapprehension. What is labour? Labour has been defined as a moral conscious act. Man faces the material world. He has certain needs which must be supplied if he is to enjoy well-being. By using his intelligence, his brains, and his physical powers, he can supply those needs. Other forms of life put forth effort, but human effort is a conscious, moral act. Animals act by instinct, and the instinct of animals, so far as we know, has not progressed very much all through recorded history. Lower forms of life, such as vegetable life, are unconscious; they make effort, but so far as we know it is unconscious. Man alone has intelligence; he has both brain power and physical power; and man alone has come into contact with the forces of nature, has studied them, has used his intelligence upon them; has subdued them and made them subservient to his purposes. We can see the enormous advance mankind has made if we consider the terror of the primitive man when surrounded

with the wonders of nature as exemplified by a thunder storm, an earthquake, or an eclipse. When we compare that with the way we view these things, thanks to our modern knowledge, which has enabled us to control the forces of nature, heat, steam, and electricity, and made them our servants, to enable us to live with a higher standard of comfort, and to prolong life and make the world a better, healthier and safer place in which to live. A moment's reflection shows us what an enormous advance has been made. This advance is the effect of man's labour.

In considering labour many people limit themselves. If you walk into the Market-place on Sunday and listen to some of the orators there who are so intensely interesting, or read advanced books which are so full of stimulus to thought, much as you may disagree with the writers of them, you find it stated that all the wealth and all the value is created or is the result of the efforts of manual labour. Let us examine that statement. There is some truth in it, but it wants examination, it wants analysis, it wants understanding.

INTER-DEPENDENCE.

Let us take farming as an illustration. We put a farmer and the necessary number of skilled workmen on an area of land to cultivate it. The product is the result of their efforts, perhaps we say it belongs to them. If we go into the history of farming we find that originally the people who farmed did get the

whole result of what they produced. But what was it they produced? It was a bare minimum. We find that as time has gone on various deductions are made from what is produced by the farmer and his men. There are rent and rates and a number of deductions. What are those deductions? What is paid as "Rent" is to a great extent the return on wealth which has been put into the land to improve it—farm houses, buildings, drainage, hedging, ditching and other expenses, bringing the farm up to a high state of cultivation. Labour and capital have been put into it, and someone has had to accumulate that capital and pay for the labour. A tenant comes along and wants a farm, and the rent he pays is calculated on not only the pure economic rent, but also the value that has been put into it.

The farmer and his men working on an area of land were entitled to the product originally, but that product was a bare minimum. At the present time we know that by using certain methods, by using certain machinery and certain fertilisers, by knowing about the soil and other of those phenomena connected with farming, we can raise, not a bare minimum but bumper crops. What is it that has enabled the community to get bigger crops out of land? That brings us closely into touch with one of those very interesting developments which has become more and more noticeable in recent years: the growing inter-dependence between industries, the grow-

ing inter-dependence even between individuals and communities. Anything that tends to injure or depress one individual, or anything that tends to injure or depress one industry, tends to affect the well-being of the whole community. And farming gives us a very good illustration of the advantages of a wisely co-ordinated system of co-operation, or of utilising the inter-dependence of industries.

In the case of a modern farm there is the farmer with his knowledge and experience directing the skilled workmen working on the land. But what do they need to get the best out of the land? They want the assistance of the chemist to tell them what the soil of the various areas consists of, what that soil can best grow, what should be put into it to enable it to grow crops to the best advantage. They need the physicist to tell them about the climatic conditions, and we have seen how in some instances by electric discharges and other means, improvements can be made in the productiveness of the soil. The work of the physicist is doing great things for agriculture. But the chemist not only tells you what the soil requires, but he tells you how to get the necessary ingredients into the soil. The great work of Sir William Crookes showed us how to extract nitrogen from the air and make it into fertilisers; this is one of the miracles of modern science applied to agriculture. Then having got a knowledge of the soil, by means of the analyst, and knowledge of fertilisers by means

of chemical knowledge, which neither the farmer nor his men possess, the farmer and his men can do better work with less physical exertions, if they are supplied with the best tools. To get the best tools you want the work of the metallurgist, who shows how to produce the most suitable kinds of metal; you require the inventor who invents tools which can do the hard work of the farm without injury either to the physique of man or beast. And so we go through industry after industry which assists, or can assist, in the working of a farm. Now when we have, thanks to a harmonious and well-devised system of co-operation, all these men working together in the production of a greatly increased crop, is it just or right that one body of men should turn round and say: "We sowed the seed, we reaped the crop, it all belong to us?" So we see that even in farming, which is, and always must be, the greatest human industry, because it supplies us with our food and raw materials, we have an excellent illustration of the inter-dependence of industries, the inter-dependence of individuals, of how the laboratory, the study, the university and the workshop can all most usefully assist in the work of production.

THE WORK OF CO-OPERATION.

Now all these people who, by putting their brains and their physical powers together, produce this great result are the labour force connected with farming. We cannot do

without them unless we are content to diminish our standard of living and to diminish the stage of civilisation to which we have attained. If any one group claims that all that comes from this effort belongs to it, then you immediately break up that great work of co-operation which is the secret of the enormous strides that the human race has made during the past century or two. Thus we see at the very beginning of our consideration of this subject, we have to take a very broad view of what labour is. To put it into a sentence, the labour force consists of the whole of the effort, whether of brain or of any muscular strength which is required to carry on the work of the community. If you accept that, how can it be possible to say that any one section of the labour force has produced all value and all wealth? If the scientist were to say: "I told you how to grow your crop, therefore that crop is mine," what would the farmer and his men say to him? If the engineer said: "I made those tools, I made those tractors, I made those reapers and binders and drillers and all those other machines that have materially assisted in the work, the crop is mine," what should we say to him? And we could equally criticise any other group that claims that it, and it alone, has produced all the resulting wealth.

And this is true not only of farming but of any other industry or trade—coal mining, engineering, the cloth trade or the manufac-

ture of textiles: it does not matter which of these we look at we shall find the same conditions at work. We shall find the scientist, the inventor, the metallurgist, the class room and the study, all co-operating to give the final result. In consequence of this healthy co-operation the community is enormously benefited, for the body of wealth produced annually per unit, is on the whole steadily increased, and if we compare the standard of living of even the humblest members of the community of to-day with what it was a hundred years ago, we see how greatly conditions have improved. Take workhouse conditions of 1822 and compare them with the workhouse conditions of 1922, the difference is astonishing. If we take the conditions of the ordinary mass of people—the workers, the lower middle class, the middle class as a whole —and compare them to-day with the standard of living of a century ago, the advance that has been made is enormous indeed. It is a thing which should warrant us in being healthy optimists in spite of the many regrettable things in present day society. If one sees the growth that has been made, and notes the steady improvement in most departments of life, we are warranted in coming to the conclusion that with the experience we have had since the invention of steam, with the knowledge we now have of the forces necessary to assist us when we face the material world and want to subdue them in order to get greater

benefits, we have a very hopeful future before us. It depends on us as a community whether we use our opportunities aright or not. Our society to-day is based on the recognition of private property and the sacredness of contracts. Some people, looking round the world, would say that things are in a muddle, let us therefore go back on all we have done and make a fresh start. One great country has done that. It has disregarded the rights of private property, it has disregarded the sacredness of contracts, and we have seen the terrible result. The law of progressive civilisation is evolution and not revolution; that is the policy that we should strive after.

THE REWARD.

If now we realise what our labour force is composed of, we can analyse it and classify it. It is a great, living, active agent in production. It does something actively and it is entitled to its reward. What will that reward be? We have passed through many developments in the rewards which go to the various classes in the labour force. We have in each of our industries the necessary organisers or organising staffs. We have those who study the plans of the organisers and sub-divide those plans and allot the tasks; we have those who are trained and skilled to carry out the tasks allotted to them. We have, from the skilled organiser down to the humblest apprentice, a variety of different types of human labour or effort. At one time there were, roughly speak-

ing, two classes of reward. There was the reward of the employer, and there was the reward of the worker; the employer received his profits and the worker received his wages. The wages system is a very old one indeed. It has existed in this country for many centuries. But it was revolutionised by the industrial revolution which commenced just about 150 years ago. Our industries up to that period had been carried on in a fairly simple way. There had been a small workshop, a master craftsman or employer, with a small number of journeymen and apprentices. In certain industries there had been rather bigger establishments, but the general rule was a small workshop or a small group working together round the employer, who had served his apprenticeship, passed through all the grades, and worked as a journeyman and had become an employer, employing journeymen in his turn. That system at one time seems to have been a very happy system. But as the community developed, and as the world was opened out and human demands became greater, it was no longer adequate to meet the demands of society. If there was to be a growth of population, if that population was to enjoy anything like an adequate standard of living, production must be increased. Then appeared the inventor who shows what could be done with steam; he produced the motive force capable of driving large numbers of machines, and when this became a possibility, a series of

inventors arose who invented new machines of various types. England had had a population fairly small in number, scattered fairly evenly over the country. There had been a biggish mass around London, whilst in the eastern and in the south western counties, a rather denser population existed than in the north, but, as a whole, the population of the country was small. With the introduction of steam engines and machinery, the whole condition of the country was changed. This great change is called the industrial revolution.

RESULT OF NEW FORCES.

What were the effects of that revolution? To get the full benefit of production with steam and machinery, you must give up the small workshop and scattered industries. Concentration was necessary. One engine can work a large number of machines in one factory, and that factory may employ hundreds or thousands of operatives. We know that when these factories came into existence they had clustering around them the cottages of the workpeople, and, as the industries grew, great factories were established and more cottages were built. Thus in a few decades there grew up that horrible monstrosity, the industrial town, which developed on a haphazard sort of plan. Then appeared the slum with all its problems, followed by a state of affairs which can only, in many instances, be called appalling. These were among the first effects of the industrial revolution. On the

one hand the country as a whole was becoming enormously rich, but on the other side of the picture there was appalling misery. What was the cause of it? Some people say it was the work of the employers. Now suppose a band of men had formulated a policy under which they would take full advantage of the ignorance of their fellow men and compel them to labour for them under improper conditions, and they were gradually to amass and accumulate in their own hands a big proportion of the wealth produced, and make this wealth at the expense of the rest of the community, if such a band of evil-intentioned men had had the foresight to promulgate and follow a policy of that sort, and it had succeeded, one would be almost inclined to admit that while their foresight and the policy they had followed was entirely wrong, they deserved what they got. But it was not so. There were new powers, new possibilities in that situation, of which nobody in the world had any knowledge. There were no precedents to look back upon. No one could foretell exactly what would happen. Here then was a new possibility, and for a long time all those responsible for utilising this new possibility—the Government, the employers, the labour force, the whole community—were equally in the dark. It was only by getting experience that it would be possible to see which was the way to use these new forces aright.

We can get illustrations showing the

length of time required to build up new conditions from other spheres. For instance, take our Parliament, or our judicial system, both of them for long years the envy of many countries. We did not always enjoy these advantages. This country passed through many a bitter struggle before we got representative government, giving the freedom we enjoy. It took many centuries to evolve Parliament. There were germs of Parliament in the old Norman days. The Plantagenet kings sought after it. We got our model Parliament under Edward I, as far back as 1295, but think of the struggles between 1295 and 1688. It was not until 1688 that we got any full measure of the liberty that we prize so much, thanks to our good parliamentary institutions. Or, take our justice. British justice is renowned the world over. Consider the struggles the community went through: consider the hardships that they suffered, before Anglo-Saxon commonsense gave our judges a position outside politics, outside the possibility of being influenced, giving us a system whereby we can get a pure administration of justice. It took centuries to do that.

NEED OF REAL KNOWLEDGE.

Turning to this industrial question which commenced a little over a century ago, is it not extraordinary the amount of experience and knowledge we have now obtained? What we should realise is that in the difficulties we

are facing, we now have experience and knowledge sufficient to enable us to find the right lines for further evolution. We have got the character and the good-will to make use of that experience to find the right solution which, while it may not give us a perfect England, will give us an England better than the England of pre-war days.

To advance along the right road to this we require a real knowledge of what that word labour means and includes. Let us not limit it, or at any rate if we do limit it, be very sure of our ground. Let us realise that if we take three simple factors and say they are necessary for the production of wealth, that whilst these three factors may look simple enough, yet to explain the whole conditions of modern production and modern exchange we must understand that each of these factors—and especially the last two—are not nearly so simple as they look. If we bury our heads in the sand and refuse to look around us and exclude any part of these we shall necessarily come to grief: but if we study the subject fairly and impartially we shall get enlightenment. We shall find that the problems we are faced with, difficult though they be, are possible of solution. But if any one section of any one factor says: "This is all due to me," then there must be trouble.

It has been claimed that in the past certain sections of the community have got more than their share of the wealth produced:

it this be true it may have been due to astute policy, it may have been due to ignorance. Our business at the present time, in facing a period of reconstruction, is to disregard the frictions of the past, except so far as we can learn something from them, and make up our minds that if there has been injustice in the past, or if there has been wrong-doing, they shall be corrected. If we will make use of the available knowledge and experience, and see that these wrongs are neither imitated nor repeated in the future, a better future will be assured.

LABOUR AND ITS REWARD.

Chapter XI.

HOW can we arrange an equitable distribution of the wealth annually produced among the factors which have co-operated in its production? This leads us at once to a consideration of the wages and salaries of labour, the profits of industry and the interest paid for the use of capital. All these have to be considered in turn. When we have surveyed, as far as we are able, all the labour factors, we can go on to the capital factor and we can then study the various phenomena which arise in connection with each. Finally we ought to be able to draw some useful conclusions.

At the present time it must suffice to consider how wages came into existence in this country, how the wages system has developed, what theories have been held in connection with it, and to what extent those theories are tenable. We want to know what is the theory that is held to-day, and, most of all, we want to know if that theory will stand the proof of practical test.

We know that in this country in the Middle Ages most of the rents paid for the

right to cultivate land were labour rents. The small-holder did so many days' work each month or each year for the Lord of the Manor, and that was the rent he paid for the piece of land to which he himself had an inalienable right, so long as he performed the agreed number of days' service. But then as the country progressed it was found much more convenient to have a currency and to pay for services and for goods. Thus gradually labour services were replaced by money payments. We come to a period of money rents and money wages. These were very useful for many purposes. Our early Plantagenet kings wanted to cut a figure on the Continent, and it was an expensive business. It was much more convenient that they should have a regular paid army than that they should have people doing so many days' or weeks' service and then leave the colours as we should say; so even military service was commuted for a money payment. Money became more generally used, and the use of money much better understood.

THE INDUSTRIAL REVOLUTION.

In the 14th century the country was visited by a succession of plagues. The Black Death in 1349 wiped out a considerable proportion of the population. If the quantity of any commodity be diminished its value appreciates. The value of labour became very great; there was less labour in the country than was needed to carry on the work of the country;

wages and prices rose rapidly, and the landowners attempted to go back on this commutation of services for money, and restore the old system of service rents; we all know with what result. There was the peasant revolt in 1381, nominally a failure but really a great success because it led to the enfranchisement of the workers of this country; so that by Tudor times, for practical purposes, every Englishman was a free man. There we have the beginning of paying a man for his work. Then came the Industrial Revolution, commencing in the fourth quarter of the 18th century. The Industrial Revolution came at a time when the industries of this country were scattered over the country, carried on in a comparatively small way. The factory system developed with hundreds of men and women working in one factory. These people were unorganised, each of them making his own bargain with the employer, or the employer's representative. The employer had at first a great advantage over the individual worker. For a long time there was nothing like a general rate of wages and the condition of affairs became very bad. It was thought that the wages of labour should be settled by supply and demand. Thus an appalling state of affairs grew up in this country under a new set of conditions, the results and tendencies of which it was very difficult at the time to foretell. It is easy enough to look back and say what ought to have been done; it was very

difficult at the time to see what exactly would result from this new condition of affairs. New tools and new motive forces had been applied and they entailed the taking of great risks if they were to be utilised. They might be displaced by something still better, and the people who had undertaken financial risks might find themselves in a very difficult position. Experience was needed to bring about ideal arrangements. The definite fact that came out was that by the utilisation of these new motive powers and these new machines wealth could be produced at a very rapid rate. The country became richer and richer, and wealth accumulated on a scale hitherto unknown in this or any other country.

REAL AND NOMINAL WAGES.

The conditions of labour, at any rate in certain parts of the country, tended to be appalling, and efforts were made to remedy things. There are two specially interesting things to note; the efforts of men like Robert Owen and Frederick Maurice, who began to realise what was going on, to improve matters for the worker. This may be looked upon as the beginning of modern Socialism. On the other hand we have the efforts of the workers themselves—efforts at self-salvation. Owen and Maurice and their sympathisers thought that things were becoming so bad that the workers could not help themselves, and that therefore they would have to be helped from outside. Fortunately that was not altogether

true. Labour was able to help itself; it was able to produce men of considerable force of character, considerable foresight and ability who were prepared to fight antiquated laws, customs and conditions, and to get the manual labour of the country on a much better footing. There we have the origin of the Trade Union movement which is, in its essence, a system of self-help.

Before we go further there are one or two small points connected with wages which help to clear up things we shall come across later on. We want at the outset to be perfectly clear in our own minds as to the difference between real and nominal wages. We see these phrases quoted in books, in newspapers, and in discussions, and it is well to know what they mean. Nominal wage is the actual money received by the wage earner. If a man agrees to work for £2 a week; that £2 is his nominal wage. But what his real wages are is a different thing altogether. The real wages of labour are what those nominal wages will buy, the standard of comfort at which they will enable a man to live. Before the war, different countries had very different rates of nominal wages, and in some cases the real wages of labour in countries where the nominal wages were comparatively low were greater than in countries where the nominal rate was higher. The point to realise in connection with real wages, is the difference in locality, the difference in time and the differences in

the circumstances of individual workers. In pre-war days it has been stated that a man with £2 a week in England was better off than a man with £4 a week in America. Why was that? Because house rent, clothing, food, and other items of expenditure were all less in England than in America. Thus when we want to ascertain the real wages of labour we must know what is the cost of living in the place where that labour lives. We know that in this country the Ministry of Labour keeps a very careful account of the cost of living, and that in many industries collective bargaining has certain scales of wages and rates which increase or diminish as the index number of the cost of living rises or falls—a commonsense arrangement made to keep the real wages right—or at any rate an attempt to do that. It may not always be successful. Thus the real wages of labour are really the standard of comfort which the money earned by a man enables him to enjoy; and if he is in a country where the necessaries and luxuries of life are cheap, he may enjoy a higher standard of comfort in that country on a comparatively lower nominal wage than in a country where the nominal wage is higher. There is also the personal condition of the man himself. Some people argue that we ought not to take that into account, but surely it is legitimate to do so. Consider the case of two men who have served their apprenticeship together; both finish their time together, and

both get full artisan's wages. They get married. One has a thrifty, strong wife and a healthy family, and the doctor is seldom required. The other man marries a delicate wife and has a delicate family, which is a continual drag on his resources. The real wages of these two men are very different. The nominal wages may be exactly the same, but the private conditions of the man who has a delicate family may be such that his head is continually under water. These things should be considered.

CO-PARTNERSHIP AND CO-OPERATION.

If it be necessary to have the co-operation of different classes of human effort in the production of goods why should there not be a partnership between the parties instead of a mere cash nexus as Carlyle used to call the payment of wages? Hitherto it has been found very difficult to arrange anything like a partnership between the different sections of the labour force. The conditions are so different. The employer and the organiser of industry has his own, or he has been able by his ability to get the use of other people's capital, and partly by his own and partly by other people's capital he is in a very different financial position from the worker. He organises his business with the object of improving his position; he works hard in order to build up a prosperous business, and he looks forward to accumulating during his business life a greater or lesser fortune. He hopes to be able

to retire and live comfortably during his old-age when he is no longer capable of work. But the workman is not in that position ; he has to work for his daily bread, and we cannot say that these two people are on an equality in a partnership when the aim and object of their lives are so different. It is not practical politics. Attempts have been made to get round this difficulty, and some of those attempts have been crowned with a certain amount of success. There is the co-operative movement and the co-partnership movement. Both these in essence are very similar. The idea is that all those engaged in an important industry shall have a common aim and shall share in the common benefit under a rather different organisation, but the ultimate aim is the same. Somehow these schemes, interesting and valuable as they may be, have not taken hold of the big industries. Co-partnership has become a favourite system in connection with undertakings like gas companies where there is a more or less permanent labour force. It has been applied to industries like lock and boot making. Co-operation has been applied in many directions. It has been eminently successful in the work of distribution in the retail trades ; it has not been successful in the work of production. There is the Co-operative Wholesale Society with all its energies and activities, but big ship-building companies or steel works, or any of our great staple industries have not hitherto

been carried on on co-operative lines. Thus up to the present it has been found that the most practical arrangement for these industries is to have what is known as the wages system for the payment of one section of the labour force.

At any rate in our great industries there has been the money payment system for the payment of manual labour, skilled, semi-skilled and other labour, and there have been theories on the subject of that wages system which it will be worth our while to know a good deal about.

THE IRON LAW OF WAGES.

In the eighteenth century the deplorable condition of France made it appear, to capable men like Turgot, that the great mass of the people could only gain a bare subsistence. Looking round France it seemed as if the great mass of small holders could only expect existence. Malthus developed this view and gave us the germ of what came to be known as the iron law of wages. For about fifty years that iron law of wages was the accepted theory in this country. It created a most hopeless position. If it was true, the sooner the existing system was replaced by something saner and more hopeful, the better; because under it the future of labour was hopeless. As the theory finally appeared in works of men like John Stuart Mill, it was stated that there is at any one time a fixed and certain amount of capital available for the payment of wages; if you

divide that sum by the number of workpeople you get approximately the average wage. If any one group of workpeople by means of organisation, or strikes, or any other method, manage to improve their condition and get extra wages, they can only do so at the expense of some other group, or at the expense of all other labour. There we have the dismal effect of the iron law of wages in all its nakedness. There is a given amount of money available for the payment of wages. Wages are paid out of existing wealth, and the arguments made use of were illustrated by means of existing conditions, which seemed to substantiate this theory. This naturally gained for political economy the title of the dismal science. We cannot wonder at it. If it were true, it was a dismal science.

This doctrine was preached and believed in, and men like Lassalle in Germany and Karl Marx first of all in France and later on in England, quite legitimately at one time, took up this doctrine and connected with it the teaching of Ricardo, that labour is the cause of value. Naturally they were inclined to say: "Here, on the one hand, we find it stated that labour creates all wealth, and, on the other, we are told that there is only a small amount of that wealth available for paying labour, and so it can only obtain a bare subsistence, never mind how much wealth is produced in the country."

Happily that law is not true, and the

man came along who was able to disprove it and replace it by a healthier doctrine. That man was an American, Francis A. Walker, an economist who fought in the Civil War. He published, about the year 1876, a very interesting book on the subject of wages. He also wrote a Manual of Political Economy in which he reproduced, in the section on Labour and Wages, the main part of his argument on this very important subject.

PRODUCTION AND WAGES.

Walker's theory is now accepted by the best opinion today as being correct. Walker explained that wages are for convenience sake paid out of existing capital, for you cannot pay a man out of something that does not exist. But the fund available for the payment of wages is not limited in the way suggested by earlier economists. Labour is paid out of existing capital for convenience sake, and because the owners of that capital know that the efforts of labour will result in production which will enable them to receive back any advance they make, and interest on that advance, if interest be due. Walker showed with very convincing arguments that although, for convenience sake, wages are paid out of existing capital, really wages are paid out of what labour itself produces, and that the only limit to wages is production itself and not any limited fund which is in existence. There we have a theory which does away with the dismal hopelessness of the iron law of wages,

and opens up before the industrial community a situation and a future of the greatest hope, because when we get the new system, thanks to the knowledge we possess, there will be every encouragement to every section of the productive force of the country to do its utmost to produce. For it will realise that its real wages are only limited by production itself, and that anything which tends to decrease production, affects the real wages of labour, and that all those factors which tend toward the increase of production, if rightly organised will lead to the improvement of the position of labour, because its real wages will be increased in a right and equitable ratio.

When I was in Australia thirty years ago, I saw a striking confirmation of what Walker said. In an old country where the wages cheque is drawn on the Friday or Saturday, it looks very much as if the iron law of wages is correct; that the amount that can be spent on wages depends on the bank balance. But if you go to new countries you see a different picture. At the beginning of the season on the sheep runs, the sheep farmers go down to the towns to hire the necessary labour for the whole season. That labour sees the whole of the work through. They are engaged for the whole season and the terms of their engagement are that each man shall receive a certain sum when the wool is sold. There you have a new country with comparatively small financial resources; the farmer hired his labour and

the men went up on to the sheep farms. They did not want many clothes, a few simple garments and an old hat to keep the sun off, and a pair of boots would complete the wardrobe. The farmer would find the mutton, and the flour for making the billy. The men would go off with the sheep, the farmer finding the simple food and perhaps a few luxuries. Then when the wool clip, as it is called, was over, and the wool sold, the men would receive their wages. They were very clearly paid out of what they had helped to produce. They and the farmer had worked together throughout the season, and as a result of their work, certain value in wool had been produced, the clip was prepared for the market and sold. Out of the proceeds, the farmer and his men took their agreed shares.

EQUITABLE DISTRIBUTION.

That is really what takes place in all industries, although the thing is complicated and difficult to see at first sight. A factory or mill or shipyard produces a certain amount in the course of twelve months, and the people who contribute towards producing that can only take from it what has been produced. They cannot get more. If anything has happened such as a coal strike or a railway strike, or something which has prevented the working during the full twelve months, the result is less and those interested have less to divide. If there is a lock-out or a strike there is less result and less to distribute. The

greater the output, the greater is the amount that can be distributed amongst those factors which have worked together to produce it. Some of the factors may manage to take more than their share. That may be true and is frequently stated to be true. What we are trying to get at is how to remedy this state of affairs if it exists. How can distribution be carried on so that it may be equitable and fair to all parties concerned.

Here is the first step. We have examined two theories on the subject of wages. There is the one theory which is the dismal theory, which condemns labour to a hopeless future; it was to have no benefit from any increase in production; its reward was a definite, fixed sum at any one time, and no more. That dismal theory has been exploded, and we learn that the only limit to the real wages of labour is production itself.

COSTING AND WAGES.

What we see is this, that with the experience we have been able to accumulate during the decades since the introduction of this new system of industry; that with a right judgment and a right perspective; with knowledge instead of ignorance, and with goodwill and no unwarranted suspicion, it should be possible, even with the wages system, to formulate a system of distribution equitable to all concerned. On the other hand, certain extremists have taught that since labour—and they slur over the difference between labour

and manual labour—produces all the wealth, and since the iron law of wages makes it impossible for labour to get more than a part of what it produces; there is an inevitable and eternal class warfare so long as the present system exists. That is still the teaching of extremists, although the iron law of wages was exploded fifty years ago.

Think what suffering class warfare has brought upon the world and consider the results of this teaching, disseminated by men like Karl Marx and his followers. Think of the effect it has had in this country. It has set employer against employed; it has caused friction and loss, and disaster and distress. It has crippled our efforts; it has crippled our industries; it has given us a wrong point of view; it has caused class bitterness when there was no need for it. Some employers have played into the hands of the extremists. There are still employers you come across who are convinced that the only way to get prices down is to reduce wages. Never was there a more fatal theory, that only by cutting wages can we hope to compete in the markets of the world. It is low labour cost that should be the aim, not low wages, and low labour cost in nearly every instance is the result of well paid labour. Many an employer spends far too much time in looking at his wages book. By doing so he is playing into the hands of the extremists. Some employers say, "This man is worth 30s. and we find he is making 45s.;

we must cut the rate." Such action is playing into the hands of the extremists. Of course, an employer ought to know his wages book, but the thing he ought to know more thoroughly from A to Z is his costing system. That is a thing which has been lamentably neglected in this country. It is the costing system, not the wages book that is most important. This is a subject which should engage the most earnest attention of the employer. So long as the labour cost is low it matters very little what wages a man receives. In the old days when labour was using a few simple tools, it might have been the duty of the employer to watch the wages book, but to-day with expensive tools and with an immense amount of capital sunk in plant and machinery the necessity for looking at the wages book has been very much diminished. What we want in far too many of our business concerns and factories is to know what labour really costs, for if the labour cost is really low, the working expenses per unit of production are low and that is what we should chiefly aim at. In America they have realised this sooner and more completely than we have in this country. The Americans—and all honour to them—have worked hard at getting good costing systems. There are a few places in this country where you will find a costing system in advance of those in America, but they are all too rare. In America these systems are more generally the

rule than in this country. In the best American factories a man who cannot earn a high maximum wage is dispensed with because he is too expensive to be employed. In too many factories in this country the opposite policy is pursued. The people who earn low wages, are, generally speaking, less effective, and are the most expensive members of the industrial community.

Here are some of the big issues and very vital matters in connection with this great question of labour and its reward. We have only just touched the fringe of the subject, but we have looked at two theories and have seen the fallacy of the one and the truth of the other. We have been able to see how that fallacy played into the hands of extremists, and has led to class warfare, entailing a good deal of the irritation, strife, disaster and trouble that we have suffered from far too long. A whole hearted recognition of the truth of Walker's position as developed, elaborated and accepted to-day; a recognition of the importance of the costing system to supplement and assist the inspection of the wages book, is what is wanted. It is to the employers' interest to control labour cost; that has nothing to do with the wage rate necessarily. The worker's point of view is the rate, for he wants the real wage to be as high as possible. It does not matter how high that real rate may be so long as we get a labour cost which will enable us to compete on fair terms with

our competitors; and we can get that when we have a contented labour force working harmoniously under the best possible conditions with the other factors of production.

LABOUR—ITS ORGANISATION.

Chapter XII.

IN pre-war days this country was not producing its industrial maximum. What was done during the war to increase production amply proved that. There is no denying the fact; but still we have also got to remember that the production which is the result of war pressure and war conditions cannot be expected to continue in normal times. No band of men organised as employers, foremen and workmen, could continue long working under such pressure. All honour to them for the way they did work during war time. We know that a good deal of the present trouble is due to the fact that our industrial force has suffered, perhaps is still suffering, from war weariness; at the same time we know that in pre-war days we were not producing our industrial maximum, and that there is a great deal of feeling at the present time when business is slack and orders are difficult to obtain, that if a man does an extra amount of work he is doing somebody else out of a job. That is a false conception from which we have to break away. If those who are producing, whether employers or employed, are adopting or following a policy

which leads to increased price to the consumer they are putting obstacles in the way of the return to prosperity. We cannot get a return of prosperity whilst there are such obstacles in our course.

There was a conference at Manchester during the course of the war where this very question was discussed. There was a gentleman present who gave an illustration of restriction of output. It was so remarkable that the shorthand notes of his speech, as well as of other speeches at that conference, have been published in a volume entitled "British Labour during the War" published under the authority of the British Association. It is a book that those who are interested in these questions will do well to consult. The speaker referred to gave an illustration of how restriction in output affects the building trade. He showed how in the case of a block of cottages erected in 1885, the cost of labour for brickwork only, was 8½d. per square yard. The bricklayer worked for 9d. an hour and his labourer worked for 6d. per hour. In 1912 the same labour cost 1/9 per square yard, but while the cost of the labour for the brickwork was roughly three times as much, the bricklayer had only obtained an increase of 1d. per hour: the bricklayer was paid 10d. an hour and the labourer 7d. The explanation was that the number of bricks laid per day in plain walling in 1885 was from 1200 to 1500; that the number laid in 1912 was 550 to 600 per day, while in 1914

the number had fallen as low as 450. The speaker also gave some remarkable figures of the number of bricks bricklayers could lay if they were working on their own account. That was a very remarkable pronouncement. It was made at a conference at which both employers and representatives of labour were present, and that statement was not seriously criticised.

A short time ago I was talking to an experienced builder and I mentioned this point to him. He said that these figures were substantially true. For in 1885 labour for the the brickwork in an ordinary workman's cottage would have cost him £12 10s.; in 1914 it would have cost him £47. Thus you see that the figures quoted for the West of England were substantiated by a builder in another district. I quote these two instances as illustrations of restriction which presumably is practised because of this extraordinary idea that if the individual worker does too much he is causing unemployment for other people.

THE FALLACY OF RESTRICTED LABOUR.

What is the result of such a practice? We only have to consult our rent book to see. We know how rents have continually risen, and one of the causes of the rise in rents is the increased cost of building. Follow the problem a little further and see what it means. A man puts up a cottage and it costs him roughly £30 to £35 more for the labour for the brick work. He has to charge a higher rent for the

cottage, or it is costing him more to live in it if he has built it for his own occupation. The £30, or whatever the sum is, is subtracted from that man's purchasing power; it means that he wears fewer clothes or fewer boots or perhaps he smokes or eats less and buys fewer books. That £30 expended in other commodities would have set various classes of labour to work or would have kept various classes of labour at work; and if we multiply that individual case by thousands or perhaps by millions we begin to get an idea of the harm that is worked in the country or in the world by restriction, if it is unwarranted. I do not say that some restriction is not warranted; I am merely stating the facts, and point out that restriction for which there is no valid excuse is causing harm to the whole community.

The French economists of the middle of the 18th century made very clear the distinction between productive and unproductive labour. Now instead of saying that only labour employed on the land, in the mine, and in fishing is productive, and that all other types of labour, although they may be useful are not productive, we hold that all human effort which either directly or indirectly assists in the work of production, is productive labour. The original theory made productive labour a very small class, and unproductive labour a very big class. The modern theory makes productive labour a very large class and un-

productive labour almost negligible. But in accepting that we have to face a big and difficult problem, for we must take that big group of productive labour as recognised nowadays and sub-divide it. We must make an attempt to grade it. Some of the text books tell us that the most important part of this productive labour is that connected with the work of invention. Other text books will tell us that the most important element in the productive class is the highly skilled organiser; whilst others will tell us that the skilled artisan class is the most important. It does not matter much which we take so far as our present purpose is concerned. The important thing at the present juncture is to realise the importance of getting a right balance between the different sections in the productive labour class.

IMPORTANCE OF A RIGHT BALANCE.

It may be asked what do we mean by a right balance? We have the labour which is employed, whether as organiser or as worker in connection with our manufactures, mills, shipyards, and other big productive businesses. We also have a big group of labour connected with the transport services and the professions. Has it never occurred to you that if we get a wrong balance we have a state of affairs which is leading to loss to the community and leads to fluctuations in employment? We want a transport service to transport the raw materials to the factory and the finished goods from

the factory ; but if our transport service is out of proportion to our needs, we have in that excess a body of non-productive consumers. They are consumers but they are not really assisting in the work of production, and they are causing loss to the community.

Let us take a simple illustration from our railways. Our railway fares and rates are higher than they have been for many a long year. This rise in railway fares and rates has taken place during the war period. If we ask railway managers why the rates have gone up they will tell us : "Our wages bill before the war was so much ; it is now so much," and the difference between these two figures is startling. Railway labour tells us that in pre-war days railwaymen did not receive a living wage and that they are only just receiving a living wage to-day. So we get two opposing statements. But there may be another way of looking at it. I was talking only the other day to a man who knows this subject who said that the trouble with the railways was that they were overstaffed ; there was too much labour—too many people in the management, too many people on the official staffs, too many people in the office, too many people doing the running of the railways. I am not in a position to control that statement. But for argument's sake let us say he was right ; and indeed if you go to one of our large junctions and watch the trains come in and see the crowd of porters running about you are

sometimes inclined to think that one part of of it may be right. What does it mean? It means that the excess number of people are not doing productive work. and whether they are officials, or porters on a comparatively small wage, they are not only a drag on the railways, but they are consumers who are producing nothing. They are a drag on the whole community. Let us go a step further and see how it works out. I go up to London occasionally to attend meetings of scientific societies. I frequently go up on a Thursday, which used to be a very favourite day for meetings in London. It was a relic of pre-war days when there used to be cheap half-day tickets on Thursdays. In pre-war days you got a half-day return ticket from Nottingham to London for 4/3, or for an ordinary ticket any day you were charged £1 0s. 6d. Each time I go to London now I pay 17/11½ single fare or 35/11 return. During the past twelve months I have been up to London I should think over twenty times; not sufficient to warrant a season ticket because even a third class season for a quarter is 17 guineas and 9d. What is the effect of this on me personally? Where I pay 35/11 instead of 4/3 you see I am over 30/- out of pocket, and if you multiply that by 20 I am some £30 out of pocket. This means that my purchasing capacity is restricted. I cannot buy the things I should with that £30. That £30 would mean employment in other industries. It is true that with one individual

if taken alone, it does not make a great difference, but it does when you take the thousands, even millions of railway travellers who are affected in the same way. Their purchasing power is reduced because of the high fares which the managers of the railways tell us they must charge because of the high cost of labour, whilst the labour party tell us that it is due to mismanagement and over capitalisation. It is not my point at this moment to argue which of these positions is true; my point is that high railway fares reduce the purchasing power of the community and lead to dull trade and unemployment. That is the point that comes out, and it is what we have to realise. From the railway point of view these high fares are stupid, and therefore probably the railwaymen are right when they talk about mismanagement. I have come down several times by the express leaving St. Pancras at 9-30 p.m. On one occasion there were not sufficient travellers to put one in each compartment. If there had been a half-guinea half-day return, I can well imagine that the train would have been filled and the company would have had a much bigger revenue. The rule is for about two people to get out of that train at Nottingham—seldom more. High fares from that point of view are a direct loss to the railway company. And so there is waste and loss all round.

WISE SYSTEM OF ECONOMY NEEDED.

We can illustrate this same point in

other ways. We had the Geddes' Report. Each interest which is told that it must agree to reduction in expenditure says: "Oh yes I can see it is necessary in every case, except mine." They all agree in that. Educationalists and a great many people who are not educationalists say "You must not cripple education." A great many men who are in business, and who would be directly benefited by the suggested economies, are, to their honour, saying: You must not touch the education grants." They are right up to a point. The value of that report is that it has thrown a flood of light on how the money is spent and suggested that we should endeavour to get greater value for our money. The Universities have never been overburdened with money. The University teachers have been very much like Lord Rosebery's description of the dukes, but much more truly, poor, but honest. We have never been burdened by money. We have been content to do our work quietly, and one hopes efficiently, and as the result of a little pressure the Government did increase the small grant to Universities to a million and a half a year, which is not a big sum. Under the Geddes' scheme that sum is to be reduced by £300,000. I should like to see the Universities set a patriotic example in this matter. It is not a case of the country being able to avoid decreased expenditure all round. We as a country are up against a situation which vitally affects our entire future.

If we go in for a wise system of economy all round we shall be able to face the future; but if everyone of us objects to this axe, we shall be faced with the breaking down of the whole machine and there will be no education, no navy and nothing else because we shall be bankrupt.

What is the wise thing to do? To make up our minds to be Englishmen, to put up with reduction and make as little to do as possible and do our work, or cry out, like so many Germans before we are hurt and refuse to play the game? I believe that the English characteristics will come to the top, and that we shall not only accept this Report, but that we shall go further and go in for much more drastic reductions, because it is necessary to do so if we are to hold our position as a nation. In this connection would it not be a good example to the whole country if not only the Universities should welcome this chance of showing their patriotism, but that Cabinet Ministers and Members of Parliament also said: "We will take a 20% reduction of salary until things are right"? All honour to the King who long before the Geddes' Committee was formed begged his Ministers to reduce the expenditure connected with the Crown because of the state the country was in. The King was the one who first realised our serious situation, and all honour to him. The example of the King I for one am not afraid or ashamed to follow.

AN INDUSTRIAL COUNCIL.

When it comes to shool teachers you have got a very difficult and troublesome proposition; but, as one authority has pointed out in a letter to the press, the teachers of this country have never been lacking in patriotism. I believe he is right, for it is a case of economy or ruin. We must pay off our war debt obligations, that is a matter of honour. We cannot get out of our obligations to the men who fought and suffered for us. This is an obligation which must not be curtailed by one halfpenny. We as ordinary citizens should shoulder our burden more completely than so far we have been called upon to do, and it will not hurt us. It will be setting a good example to the whole round of spending departments.

One of the big problems then is to get a right balance between the different sections of our labour force. We do not want too many people producing goods to such an extent that the transport services cannot handle them or the markets dispose of them; or too many people producing raw materials, when those raw materials are in excess of the world's demands. We do not want the transport service so complete that it can easily handle double or three times the amount of traffic available. This would result in a want of equilibrium, and a want of balance. It is thus that we get the tendency towards unemployment and all the troubles connected with hard

times. This is one of the factors which has been far too little studied, dull times and bad trade are largely due to a want of balance between these elements. We have got too much in one sphere, and this leads to local over-production or local dislocation. At one time you are making too many boots, then all the boot factories get filled up and labour connected with the boot industry is on short time or suffering from unemployment. What is wanted is a much more complete knowledge of the markets, and we want an enlightened control to see that markets are adequately supplied and that the goods are such as will attract an increasing business.

Shall we get that from a Government department? I doubt it. What one would like to see is an industrial council or industrial parliament outside politics, representing Labour, organisation, and commercial experience, which could act as a board of directors for the country in trade matters. Such a council would settle questions of difficulty between capital and labour, would know the conditions of the markets and take measures to know the requirements of the markets, obtain all necessary information in connection with the supply of raw materials, and see that there was a just and right equilibrium between the various sections of the labour force. What we want is enlightened direction, and this could come better from an industrial council than from any State department however carefully

staffed and organised. It is much better that the factors should have the benefit of, or feel the difficulties connected with, a body that was responsible, than a body of irresponsible or semi-responsible State officials.

HEREDITY AND ENVIRONMENT.

As to the efficiency of the labour force that we have been considering. Broadly speaking, it depends upon two sets of conditions, the conditions affecting the individual and the conditions affecting the group.

The conditions affecting the individual are mainly expressed in the two words heredity and environment. The efficiency of the individual depends on his constitution which is received in the first instance from his ancestors and immediate parents. It depends very greatly on the environment in which he lives and in which he is born, more especially in the place where his early years are passed. If a child is born under bad housing conditions, he may by a miracle turn out physically fit; but only by a miracle. The Prime Minister said you cannot produce an A1 people in our slums. And he was right—you cannot. The environment and heredity which affect the individual are vital. Investigations show that even children born with very doubtful physique, if placed at once in proper environment, can be developed into wonderfully fit and physically good citizens. What are the necessities in connection with environment? Good housing, pure air, good water, good sanitary conditions,

proper clothing, proper food. Given these you give the individual a chance. And the need for these is more pressing during the first ten or twelve years of life than at any other period. If a good start is made and the physique is built up well at the beginning, it is wonderful how tough it becomes and what it can stand. But no child should be suffered to be brought up in slum conditions.

Then affecting the individual, there are not only these conditions in connection with heredity and environment, but there are mental and moral conditions. These are mainly connected with what we call education. The child should have a good general education. That word education is one of the most abused words of the dictionary. One sometimes wonders whether the leaders of education know that education does not consist in cramming a dozen subjects into some poor little child's brain. The word education itself explains that. Education means the development of the germ within the child. If we cram subjects into a child we kill the germ. We want an intelligent policy which develops the germ in the same way as we develop a flower. A good general education up to a certain age is the first requisite. Then when the child arrives at a certain age, it can begin to specialise. It may be that it is more suited to earn its living by the skill of its hand. It may be that it is going to do best by earning its living through the training of its brain. It

may be that a child can do its best by having both trained. Take the ordinary skilled worker—a fitter, a textile worker, a carver, the artist,—success comes mainly from the hand and eye. Take the teacher, it should be his brain. If we take a man like a surgeon, it is both brain and hand. He wants knowledge and skill to make use of that knowledge. A surgeon without the skilled hand would be a sorry sort of person to amputate your leg or perform that interesting operation for appendicitis. Thus there are mental circumstances connected with the development of the individual. And then there are the moral conditions. We put a child in a good environment and in the majority of cases a good character results. It is very few characters which, if placed in bad surroundings, will survive. So that there are mental and moral conditions which affect the force which is going to give us our standard of comfort in the world.

DEVELOPMENT OF ASSOCIATIONS.

Then there are conditions affecting groups. There are circumstances in which individuals are allowed to combine into groups and act as a corporation. At the beginning of last century there was no right to combine; the law had been developed for a simple state of society. The individual employer was known to the law so was the individual shopkeeper and the individual craftsman or worker, but such things as corporations of shopkeepers,

co-operative societies, the working together of employers and employees in Associations, or such things as trade unions or the combining together of labour to look after the interests of labour were unknown. So long as that condition of the law continued, the working force of this country, whether employer, workman, or shopkeeper, was at a disadvantage. That had to be altered, and gradually what were known as the combination laws were modified or repealed. To-day we have associations of employers, the object of these associations being to look after the interests of industries and the interests of the employers. We have trade unions whose object is to look after the interests of the workers. We have amalgamations of trade unions, and we have amalgamations of employers' associations, and we have a recognition of the rights of people to trade co-operatively. All these things are now known to the law so that there are few obstacles in the way of wise combinations to assist the group, never mind what the purpose of the group may be. But always remember that it is one thing to enjoy the right to combine, and it is another to form the right kind of combination and for that organisation to act wisely.

Take the Trade Union movement, and compare it as it has developed in this country with the Trade Union movement on the Continent or in America, and you will be struck at once by the enormous difference. The

Trade Union movement in England was for a long time, non-political: on the continent it has always been strongly political, and the fates of Governments have frequently depended on the way the labour elements of a given country have acted towards them. In America the Unions have been much more political than here. In England, Trade Unions have been much more wisely organised and have acted much more circumspectly than Unions in any other part of the world. The English Trade Unions are not perfect, but taken as a whole the English Trade Unions are superior to anything else in the world as labour organisations, and they have set the whole world a very high example. Taken as a whole the effect of the Trade Unions in England has been distinctly good, and has been an element making for progress.

Then take the employers' associations: they are much newer and they are not nearly so perfect in their organisation. The employers as a class are much more individualistic than the workmen. They have been accustomed to act sometimes in keen competition with one another. When they find themselves sitting round a table to discuss things, they have on occasion been rather shy of each other, but they are getting over it. Trade Unions passed through that stage in the early days. All these types of associations will doubtless pass through different modifications which will render them more perfect.

There is plenty of scope on both sides for further improvements. Thus the point to notice is that having the right to combine, we then need to take care that we get the best form of organisation. We may congratulate ourselves in England on having organisations of both employers and workmen far superior to those of any other country.

DIVISION OF LABOUR.

There is a further point connected with the group, and that is the policy under which the labour force will function. Here again a vast field is opened up. One very interesting part is division of labour. Adam Smith gave as an illustration of this the making of a pin. He showed the advantage, from the output point of view, of division of labour. Adam Smith mentioned three advantages, John Stuart Mill added two more and Professor Alfred Marshall added another which is of considerable interest to us at the present time.

The advantages mentioned by Adam Smith were (i) increased dexterity (ii) saving of time, (iii) the invention of new processes, or new machines. John Stuart Mill tells us that where labour is well organised it gives us the best organising capacity and effects a saving of tools and machinery. With the growing cost of tools and machinery this means a great deal in lessening the cost of production. These things are very evident to most of us. The point that was put forward by Professor Marshall is that, thanks to the policy of

division of labour, we get an interconvertibility of labour. What did he mean? Marshall was travelling in America after the Civil War. Hundreds of thousands of men were under arms and they had to be supplied with arms and munitions. They had to organise and establish arms and munition factories where these things could be produced. When the war was over the demand for things which had been made in these factories had come to an end. Marshall saw while travelling about in the States what was done with these new munition factories and how employment was found for thousands of people who had been trained to make munitions of war.

He says there are no two things superficially less alike than a service rifle and a sewing machine; but, he visited a factory employing about 6,000 people, a big factory for those days. They had been making service rifles during the war period. That firm turned over from war conditions to peace conditions, from making service rifles to making sewing machines, without having to discharge a single workman or workwoman, and that he found was due to the application of division of labour which brought about what he called this interconvertibility of industries. In the old days a man would make a complete article and if that was no longer wanted he would be faced with unemployment. If a man was making a whole rifle, and was told to make a sewing machine he would scratch his head for several weeks,

but in a service rifle there are innumerable little fittings. It does not matter whether those little fittings are for a service rifle or a sewing machine to the man who knows how to do his special little process. No two things are less alike superficially, but when you come to look at it, a rifle has a walnut stock and a sewing machine has a walnut base, and a man or men who could make the one could also make the other. And there are other little parts of a rifle not dissimilar in process to produce to those in a sewing machine. If one person were put upon the whole process he might not have been able to manage the work without weeks or perhaps months of training. Owing to the fact of mass production these workers were turned over to other work in a very short time, without any period of unemployment.

That illustration is very helpful to us even now. We have been able to utilise some of our war factories, and it might be possible to utilise some other of the factories and their equipment for the making of quite dissimilar things to those we made in the war period. There was one place I visited in the Midlands where they produced small metal work during the war time using capstan lathes and automatic and semi-automatic machines of various sorts. These machines made all sorts of things out of brass and steel for munition purposes. Before the war that factory made small metal goods in a comparatively simple

way. After the war they found it was very much more economical to adapt the new machinery and equipment for turning out these things.

LABOUR—ITS ORGANISATION (Continued).

Chapter XIII.

THE extent to which you can carry division of labour is limited by the market. If you have a very big, developing market you can develop division of labour very considerably. The making of pins is a very good illustration. Whereas one man might by himself make ten or twenty pins in a day, eighteen men might make twelve pounds of pins containing something like 48,000 separate pins. At the present moment there are machines capable of turning out 2,000,000 pins an hour. There you have the division of labour carried to its utmost possible extent. Instead of having a number of men with simple tools making pins, you have the miner, the metallurgist, the inventor, the engineer and a whole series of skilled people devising and turning out automatic machines, effecting a miracle. It is due to carrying the policy of division of labour to the furthest possible extent in this one industry. But if a man equips his factory in such a way that the machinery can turn out the whole year's demand in say six months, his capital will be lying idle the other six months and his workpeople will have a

period of unemployment. This is very serious both for the manufacturer and the workpeople. Thus it is part of the responsibility of the manufacturer to so arrange his system that the division of labour and the processes he employs in his business make it certain that the whole year's demand is turned out in twelve months exactly. It is his responsibility to so adjust his factors of production that none shall have an advantage over others. This the economist calls putting into practice the Law of Substitution.

To what extent and in what proportion shall the factors of production be employed? That is the great responsibility of the organiser of industry. If he make a mistake, and there be want of equilibrium and balance in his arrangements, there is a chance of local over-production, with consequent danger of fluctuating employment and loss not only to the man himself but to the community. The Law of Substitution and the working of that law is well worth studying. We shall see something more of it perhaps when we are dealing with the organiser of industry. The exercise of that responsibility makes the organiser of industry a very valuable member of the community.

MONOTONY AND THE REMEDY.

There are alleged to be certain disadvantages connected with the policy of division of labour. It is pointed out that under the old conditions the skilled man working with

simple tools had a much more interesting occupation. The long working day did not become irksome, for the man was really interested in his work. He made some machine or some commodity in its entirety, or some complete part of it, and so the long day did not prove irksome and he enjoyed his work. Of course it is always easy to draw pleasant pictures of the times that are past. But these pictures are not always true to nature. It is true, however, that under modern conditions with a highly developed system of division of labour, and with mass production, causing a man to do some simple operation, perhaps pulling a lever so many times a minute and just attending to the machine while it goes on functioning, there is apt to grow up among the workers a spirit of discontent and irritation. A man working under such a system, producing some simple result, hour after hour, day after day and week after week, gets his higher nature and sympathies deadened: he takes no interest in his work and he naturally gets irritated. That is said to be one of the conditions which lead to friction and discontent.

The remedy is really with the individual himself. If a man has got some simple occupation which does not take up all his time, he can utilise his intelligence, indeed his intelligence has been utilised in this way. It was pointed out by Adam Smith that when a man has some simple operation to perform that

does not engage the whole of his attention he frequently devises some improved method of doing that simple operation. Thus a good many processes and machines have been invented by a man doing one of these monotonous operations, because he has had the chance of seeing how it could be done more effectively and more economically.

There is, however, something beyond that. Mass production under the modern system of industry leads to the possibility of a shorter working day. A good deal has been said about that. Lord Leverhulme has advocated a six-hour day ; but at any rate an eight-hour day with production of this sort is probably long enough for the ordinary man or woman. With the shift system, and by working machinery without restriction, it ought to be possible in many industries to get a great deal of advantage for the community, and a greater advantage for the individual too, because if the individual can get a greater amount of leisure, and if he uses that leisure aright, the community benefits as well as the individual.

SHORTER WORKING DAY—ITS POSSIBILITIES.

It was pointed out as long ago as the days of Aristotle, the great Greek philosopher, that industrial occupations were not calculated to produce good citizens. He did not mean by that that those occupations in themselves were of a low grade and tended to lower the standard of mentality of the artisan. What he meant was that those occupations as a rule

occupied so much of a man's working time that he had no time for developing those higher qualities which should be educated if the man was to take an intelligent interest in the fortunes of the community in which he lived; that is if he is to be a good citizen and exercise aright his privileges as a citizen. If we can arrange a shortened working day and, thanks to a good system of education, we can produce among the great mass of our citizens men who are really competent to exercise their functions as citizens, we have a very big argument in favour of a shorter day.

There is another way of looking at this. If we go back to Tudor days, this country of ours was one of the most musical countries in Europe. Musicians will tell you that the old 16th century English music stands easily first in contemporary music. But to-day the state of music in this country is appaling. This is because we have all been exclusively occupied in looking after the more material things of life and we have left some of the amenities of life severely alone. Take half a dozen people in the streets of Nottingham or London to the National Gallery, and show them some of the great masterpieces of art and explain to them the beauties and the value of those works of art, and the majority of those people would say that they could not see where the value was. This is because their finer sensibilities are blunted; they have never been properly or fully educated; that is to say their higher sen-

sibilities have never been developed to understand and enjoy the great pleasures of life connected with art and music. And the same thing is true of literature.

If we had a six hour day now in this country what would be the result? I don't think one need be much of a prophet to say that we should multiply enormously the number of football meetings and cup-tie events, cricket matches, races and things of that sort, which may in moderation be useful; but which pursued immoderately, would still further depress and deaden the higher side of life. But, if, by a real system of education we could enable a man to earn a really good wage during a comparatively short working day, and in return for using machinery and processes to the utmost, produce a good output, then, provided that the worker has been educated so that he can enjoy the real pleasures of life connected with music, art, literature and other similar subjects, you would be producing a community well qualified to act aright when the responsibilities of citizenship have to be exercised. All these things hang together. This is the ideal which we can work towards. We may not attain it in a lifetime, but we can lay the foundations of it.

INCREASING DEMANDS OF INDUSTRY.

University College, Nottingham is trying to do this. The Government requested the Universities and Colleges of this country to take up seriously the subject of adult education.

This College is the only one so far that has accepted that responsibility in the form that was put forward by the Government. There you get the origin of the adult education department which in quite a short time has had very remarkable results. It is part of the foundation work towards the new future to which we are looking forward. But Aristotle was right; you cannot, if your nose is continually on the grindstone, produce citizens whose vote is worth taking into account. He may at the ballot put his "X" on the paper, but he will do so under some label, and if you ask him the meaning of the label he will not be able to explain it. In other words the ordinary voter to-day of all classes is much keener to call himself a Conservative, a Liberal, a Lloyd Georgite or a Bolshevist, because that special label saves him the trouble of thinking. That is what we want to get away from.

It is also said that division of labour may increase the inelasticity of labour. We find that pointed out in some of the text books. A man gets proficient in doing some little thing and he cannot do anything else. That may be true to a small extent in certain occupations, but the illustration given by Marshall is a sufficient answer to the alleged disadvantage of inelasticity.

The most serious disadvantage that has been alleged against division of labour is that it has been one of the big causes which have killed the apprenticeship system. The ap-

prenticeship system at one time was a very valuable part of our national education. Lads became real craftsman after passing through a real period of apprenticeship, whereas now it is alleged that only a few very skilful men are needed to design plant and complicated machinery, which can be operated by unskilled or semi-skilled people, who can pick up an occupation in a few weeks or months. That is perhaps the most serious disadvantage. But as against that we have to realise the increased skill that many members of the community have to attain to in order to produce this new type of machinery. The inventors have to design them and get the best metals for them. The study and the laboratory, the metallurgist and numbers of people representing other very highly skilled occupations all co-operative. Thus we find that in the end there is really a larger proportion of highly skilled labour in our industries and that a bigger demand is made on the individual worker. Here is one reason for the great modern Universities which during the past twenty years have sprung up all over this country. They have established scientific and technological departments, where hundreds of young men and young women are being trained in a way that our youth have never been trained before. That is a very distinct advantage to future progress and the future well-being of this country and the Empire.

These thoughts bring us again to the

position we have already touched upon, but which must be mentioned again in connection with the growing inter-dependence of industries. For this is a direct outcome of division of labour, although at first sight that may be somewhat difficult to grasp.

INTER-DEPENDENCE.

When considering farming we saw how the farmer with his men working on a piece of ground, relying on their own exertions and skill, could produce what we should call a minimum crop; but that these same men working in co-operation with a number of other skilled people can get a maximum crop. This is effected by utilising the services of the metallurgist, the inventor, the chemist, the physicist, and a number of other skilled people. When there is team work like that, making for inter-dependence, inter-working of intelligence, there is produced not a minimum, but a maximum crop. That is one of the things that makes it so difficult for anyone to make any dogmatic assertion on the subject of the equitable distribution of the wealth that is produced. Who does produce that maximum crop? No one section has a right to claim it; it is due to the team work of all. This is true in almost every direction; it does not matter where we turn, or what industry we take, there is a growing inter-dependence not only in industrial but in commercial occupations. If one of the banks makes a mistake there is loss of financial resources and we all feel it. If the

miner or coal owner makes a mistake and our fuel supply costs too much, we all suffer for it. At one time the farmer could carry on his occupation, grow his corn and harvest it, and there might be strikes in other occupations which he might discuss in an academic sort of way over a pipe and a pot in the evening at "The Chequers." That strike did not greatly affect the prosperity of the farmer. Now however, the farmer wants ploughs and tractors, and he cannot get them if there is trouble in the engineering trades, or the moulders are on strike. The whole community hang together. You can take industry after industry and see how one and all hold together. Anything which affects the well-being of one affects the whole. The great lesson is the need to realise the importance of developing team work amongst the community in the interests of all. If there is friction or restriction, the loss does not fall only on one section; it falls on all. There is a great deal of good in individualism; there is a great deal of good in collectivism; but neither of them should be run to an extreme. What as a community we want is to get the best out of each of them, and to so apply them that we may get the advantages without the disadvantages.

NEW MACHINERY AND PROCESSES.

Next we come up against a problem which is undoubtedly one of the most difficult in connection with industrial life. From time to time some new machine or some new

process is invented which decreases the cost of production and economises the amount of labour which is necessary to produce a given result. Those who look at this at the moment it occurs, merely see what immediately happens. Perhaps ten men have been doing some process, and somebody discovers a machine or a new method by means of which five men can do as much as the ten men. If we adopt that new process, the first effect is that five men are not wanted, and what the interested parties who are not wanted say is "We don't want these new processes or this new machinery because they cause unemployment." What is to be done in cases like that? The economist looks at this problem and says that these new processes or this new machinery do eventually lead to an increase of employment. They cheapen production and increase demand because people can buy more. The standard of life and comfort of the community has been increased over and over again by such means. That indeed happens in the long run. But the difficulty is what we are to do during that long run?

At a conference where this subject was discussed, Sir Hugh Bell, the great north country iron master, gave his own experience in this subject. He said: "When I began making pig iron, labour at the blast furnaces was about 5/- a ton. Labour is now about 3/- a ton; yet every man working at the furnaces gets nearly twice as much as a man got sixty

years ago. I have ten times as many men working because I am making much more iron." The decrease in cost has increased the demand and cheapened price. This has not only enabled the producer to sell more cheaply, but there has been a greater share to go to labour; the wages of labour have been doubled. But you are faced with the difficulty that for a time a certain amount of labour is displaced.

What is to be done in a case like that? If an old established firm will not adopt this new machine or these new processes, we know what is likely to happen. A new firm may be established which will utilise them, and the result will be that the new firm, producing under better conditions, will be able to undersell the old firm. Thus eventually the old firm must suffer and the loss of occupation to the employees will be more serious than if the old firm had adopted the new machine or the new process. Or another country may adopt them and it might mean the loss of foreign markets. To an old country like this, which has a teeming population and which cannot produce its own food supply, foreign trade is of vital importance and we cannot sacrifice it. What is to be done?

There was a suggestion made as a result of the conference just mentioned that there should be a policy for meeting a case like this: that when a new machine or a new process was brought out which effected a very consider-

able saving, that saving should be utilised first of all to cheapen the product and so increase the demand which would mean absorbing a little more labour and eventually absorb the whole, then provision should be made for making the necessary return on the capital sunk in the new machine or new equipment and that there should be part of the increased return available to maintain the displaced labour until it was re-placed. Some such system as that will probably in future be found to be a very wise policy to follow. The very worst policy is the plan which has been too often followed in this country. New processes and new machinery have been brought in by stealth and one section has endeavoured to reap the whole advantage. Thus the labour connected with the industry has refused to get the full benefit out of the new possibility and the consequence has been loss all round. Such a policy, of course, is fatal. A more enlightened policy is essential, and that can only be obtained by a better system of understanding between employer and employed, so that when new processes and machinery, capable of decreasing the cost of production, are available the whole situation shall be discussed by the interested parties, and the best policy in the interests of all adopted.

EFFECTS OF LEGISLATION.

At one time in connection with the payment of manual labour there were in many instances grave abuses. It was one of those

cases in which labour had a very real grievance against certain employers. It was that system which led to the passing of what are known as the Truck Acts. That word Truck, although it is spelt the same does not refer to that interesting vehicle on two wheels which you sometimes see pushed about the streets. It comes from the French "troc," which means barter. In the old days it was sometimes usual for the employer to be interested in a shop, and he would pay his people their wages on condition that they spent those wages at this special shop, or they had to take a proportion of their wages in food or clothing, or some other necessary. Such abuses grew up under this system about a hundred years ago that the Truck Acts were passed to put matters right, and under these Acts it was illegal for an employer to pay wages in kind; wages must be paid in the current coin of the realm, and the employer must not control where or with whom the wages shall be spent. There is a partial exception in the case of agriculture, where, in many instances, the agricultural labourer gets his cottage, milk, eggs, or some other products as part of his wages. There were great abuses while the old system was allowed to prevail. The real wages of labour were very much diminished in many instances, and the Truck Acts had a most healthy influence all round. In some cases it used to be the custom to pay wages in a publichouse, and a great part of the wages would be con-

sumed before the recipients left the premises.

One of the great modern instances of what that type of legislation has effected is in connection with our Mercantile Marine. No class of labour has suffered so much as our sailors, owing to the very extraordinary way in which their wages used to be paid. Crews used to be engaged in all sorts of curious places. There was a class of people called Crimps who kept houses in which sailors lodged. These Crimps arranged to supply sailors for ships leaving our ports, on terms arranged with the Captain. These men would frequently sign on for very insufficient wages when they had been fuddled with drink. Even worse than that sometimes happened when sailors returned home from a long voyage and perhaps had quite considerable sums of money to take. They would be paid off at a public house or on board the ship, and as they left, Crimps would be there with vans and take them off, pretending to be their friends. The sailors would be well supplied with drink, and when they were thoroughly drunk their money would be stolen from them. When they came out of their state of intoxication they would very probably find themselves on board an outward-bound ship booked for another long voyage. The Board of Trade worked a great change in that old and wicked system. At the present time all crews must be engaged and discharged at the shipping offices which are established at every British port ; and not only

that, but knowing that these men might be met outside and be subject to temptation and the loss of their money at the hands of Crimps, that occupation was made a criminal offence. Further than that the shipping masters in the shipping offices now have a banking system. When a man is paid off with perhaps a big sum of money, the shipping master explains to him that it is very easy to lose the money, and that if he likes to leave it in the bank there will be issued to him a pass book so that he can draw his money in a convenient place at any port in the United Kingdom. At the present time, thanks to this system, our sailors are safe-guarded in a proper manner and the sailor's life has been very materially changed. The old Crimping days have ceased and the sailor now has every chance to enjoy the money which he has earned.

EMPLOYERS AND EMPLOYED.

Chapter XIV.

DURING the 19th century there were numerous attempts made to improve the wages system, and yet there were increasing difficulties between employers and employed. It will be well to look at some of these schemes and test them by economic laws and theories. We want to get at facts so that we may realise, if possible, at a very critical period in our country's history which is the right path to take. We should test certain solutions of the problems that have been put before the country and do so quite frankly. Each one who really cares for the well-being and prosperity of our country and the progress of civilisation should, in considering those problems, not necessarily accept what is said by anybody. We have all been given intelligence in order that we may test things for ourselves: we may want guidance, and we should get that in our education. When we come to these great modern problems we must not shirk them, however unpleasant the consequences may be. We have to look them straight in the face and try to find out the facts.

The attempts made to improve the wages system have included such things as the bonus

system, profit sharing, co-operative systems and, later on in the century, co-partnership. Some of these policies have had some success. The co-operative movement has been eminently successful in the distributive trades; it has been unsuccessful in the work of production, nor is the reason for that non-success far to seek. The co-operators have never realised the value of organising ability. Those responsible for our big industries know the value of organising ability and are prepared to pay for it. When co-operators learn this lesson and obtain the services of men who are qualified and experienced enough to organise big productive businesses, then productive co-operation will become a success, and not before.

If we turn to the policy of co-partnership we find that there has been a certain amount of success. It suits certain industries where there is permanency of employment, as for instance the Gas Companies of London. London has never municipalised its gas. The gas there is supplied by a number of somewhat favoured companies, and Sir George Livesay of the South London Gas Company, years ago introduced the co-partnership system, by which the workers enjoy certain advantages and are even able to appoint representatives to the Board of Directors. In some other industries this type of organisation has also proved successful. It has been applied to the making of boots, locks, to printing and certain other trades, but

generally in a comparatively small way. Some men who have the ownership or management of big businesses have seen possible advantages in co-partnership, and have given facilities for their employees to take over a part, or in some cases the whole, of a business and run it on co-partnership principles. Several such experiments have ended in bitter disappointment. Lord Furness attempted thus to arganise a shipbuilding yard. On the one hand it is claimed that the scheme he adopted was a faulty one: he himself declared that he was the victim of the opposition of the Trade Unions. At any rate, the experiment only lasted a year and came to grief.

CO-OPERATION AND CO-PARTNERSHIP.

If we consider some of these experiments that have been tried and failed, we find a reason for this non-success. For instance in the case of a partnership which has a business perhaps employing 4,000 or 5,000 men, and the partners are making a good profit out of their business. They meet their employees and suggest that facilities may be arranged to run the business on co-partnership lines. At first the suggestion is received with joy. Nor is it difficult to see why this is the first effect. These 4,000 or 5,000 people have been working for their employers probably on friendly terms: they know them, and there is mutual respect between all the parties. The employees know that for years the four or five partners have been running that business,

living in comfortable houses, perhaps driving a motor car and having apparently a very much more enjoyable life than their work-people. Thus when the scheme of co-partnership is mooted it is expected that every one of the co-partners will enjoy the same advantages as the four or five original members of the firm. Suppose there were five partners making £20,000 a year, and they have got 10,000 men working for them, and they make over half of the business to their men. The business goes on making the same profit we will suppose under the co-partnership scheme, then at the end of the year the men, in addition to their usual rates of wages, are entitled to the co-partnership profits. If things had been going on normally there is £10,000 to be divided between 10,000 men. They thus receive £1 apiece, and there is considerable disappointment. What has been a big thing to four of five men organising a business, is a very small thing when it is divided up amongst all those interested and working in the business. It indeed goes further than that, if we work through some of these schemes. With the original partners at the head, the business goes on swimmingly, but when the new Board comes into office the profits in some cases begin to decrease, and instead of £1 the amount divisible falls to 15s. and 7s. and the time comes when the profit has gone and a man only receives his full rate of wage. The time comes when the profit having gone and

the business is making a loss, there is not sufficient to pay the full rate of wages. Under such circumstances the men are not prepared to carry on, and the business more or less quickly comes to an end. What can we learn from this? The teaching is that the surplus value which men like Karl Marx looked upon as being exploited from the worker by the employer is nothing of the sort. It results from the experience, knowledge and ability of the organiser, which enable him to carry on a successful business. Some co-partnership schemes have failed, others have commenced as small businesses organised on co-partnership principles, and they have succeeded well because the men have not had any glorious dreams of what they would do as co-partners with their old employers. Thus there are in the Midlands lock companies and various boot businesses that work very well under co-partnership. Its most striking success up to the present has been in connection with the Gas Companies.

THE PRIESTMAN SCHEME.

Owing to growing difficulties with their labour some employers have tried to get identity of interest between themselves and their employees. These schemes have sometimes been called bonus schemes, profit-sharing schemes, premium bonus schemes, like that of Rowan of Glasgow and Halsey. One of the most interesting of these schemes is the scheme organised by Messrs. Priestman, who found themselves up against serious difficulties,

They could not get a production cost which would enable them to carry on their business to advantage, and they thought out a scheme which would so identify the interests of their employees with the firm that there would result a good system of team work. The team including not only the men actually handling the tools, but the foremen, the clerks in the office, all types of management: all those drawing salaries or wages were to benefit by any action taken as a whole, which resulted in producing goods on more attractive terms, and so inducing a bigger demand. This Priestman scheme was launched, and considerable success is claimed for it.

The originators of the scheme say that there are two points as preliminaries on which they would lay considerable stress. "The share of labour must not be fixed at the lowest amount it can be prevailed on or compelled to accept, but must be the outcome of a fair and square arrangement between employers and men." That is the first point in the scheme, and the second is: "There must be a frank acceptance of the idea that men must be taken into the confidence of their employers, and both parties contribute their share to the development of the industry." There is the jumping-off ground from which this scheme has developed, and the originators of it claim that it gives an equitable basis of payment, and if administered in the right spirit and adequately organised it satisfies both the

demand for co-operation and for a share of responsibility in direction.

What, briefly, is this scheme? The men are paid an agreed rate for their work, and a unit of production is agreed upon. We will suppose that the unit of production is 100 of a special commodity made by the firm during one week. The terms and the unit are agreed upon between the employers and their workpeople. During the first month all the men, both in the office and in the workshop, salaried men and the wage earners, received their agreed salaries and wages. At the end of the first month there is an account made up of how many of those units have been produced. We will suppose that during the first month the average production has been 110 units per week. During the ensuing month each person employed in the firm, whether salaried or wage earner, will receive the agreed wage or salary plus 10% for that month. At the end of the month again the accounts are made up, and if it is found that during the month the average unit per week has been 120, the workpeople both salaried and wage earner, receives 20% in addition to the agreed wage. Now it may be that owing to some condition, when you come to the ensuing month and the account is made up it is found that the average is lower and the average has gone down to say 90. They have been producing 90 and have been receiving a bonus of 20%. Even now no diminution is made in the agreed wage and agreed

salary, but the fact is made known that they are now 10% in arrear, and that 10% is a first charge on any future increase over the agreed rate of production, so that before another bonus is paid to these men they must produce a 10% increase during the month. There we have a very fair scheme. It requires conference and confidence between employers and employed. You fix unit and rate. These cannot remain permanent; you must keep your eyes on the market, you must make arrangements so as to hold your market, fix the rate lower or readjust the rate. It may be necessary to explain all these things to make them quite clear, and from time to time adjust. There is no chance for the arbitrary cutting of rates. The whole of the conditions are considered by the interested parties. It may be necessary to modify the rate; it may be found possible to increase it. The parties amongst themselves choose the policy to be pursued, and the interest of the scheme is, that all the time it means that you get team work from the humblest to the highest, all working for the common good. I had a little pamphlet given to me containing a number of things, including expressions of opinion of workmen, foremen and others testifying to the benefits they have received under the scheme, and it is their opinion that it is a fair system for adjusting difficulties between employers and employed. Such schemes as this are schemes which all of us, who are interested at

this period of reconstruction, should study, and where we have influence get the one we consider the best, discussed and its application considered in any industry with which we are connected. Priestman's scheme seems to be one of very considerable interest.

THE KARL MARX HERESY.

While there are these schemes for trying to improve the relations between employers and employed, there is on the other hand, a growing difficulty. We have the operatives organising to improve their position, to increase their wages, to improve their standard of living; and these objects are very right and proper. Indeed the Trade Union movement on the whole is a tribute to the signal success with which those ideals have been carried through. But unfortunately in the middle of last century a new movement connected with the name of Karl Marx developed. The origins of that movement are quite well known. Marx took up a doctrine which he must have known had been discarded as unsound long before, but he still persisted in using it, and from it he developed the doctrine of surplus value, which he said consisted of wealth which was robbed from the worker. Society, according to Marx and his followers, is divided into two classes, the exploiters and the exploited; the exploited do all the work, and the exploiters have all the pleasure. If these writings and teaching had remained purely

academic, they might have interested us from a psychological point of view, but we need not have wasted much time on them. Unfortunately they have done more than that. They have been only too successful in creating in this and in other countries a state of class warfare. Many men really believe that there is of necessity a diversity of interests between the employees and the employers. I have even heard a well-known economist state that fact. But it is untrue. The identity of interest between employer and employed should be complete if we are to be a happy, contented, and prosperous community. People who preach class warfare cannot produce a constructive scheme which will give this country the possibility of maintaining, under conditions of comparative comfort, the huge population which now lives within its borders. They have taken upon themselves a great, almost criminal responsibility.

These teachings have continued to the present time. How many people have really read Karl Marx's book "Capital"? How many of those who have forced themselves to read it, understand it? It is a book written by a very remarkable man in a very remarkable style, but it is one of the most difficult books to understand. As a matter of fact the doctrines of Karl Marx are mainly known to his followers from little pamphlets that have been written by disciples who hash up the teachings of Karl Marx in simple form.

STORY WITH A MORAL.

I came across one of these some years ago, and I was so amused with it that I quoted it in a little book "Economics and Syndicalism," I was writing at that time. This pamphlet was written to illustrate the surplus value theory. It was called "How Millionaires are made," and the amusing thing was that it not only stated the doctrine, but gave its refutation. The story of this little pamphlet gave the life of two young fellows who had gone through their apprenticeship together. They were brothers—John and James one an engineer and the other a blacksmith, and they received 30s. a week on becoming qualified workmen. While they remained single, they found that with the greatest difficulty and thrift they could only save 5s. a week. The pamphlet says that these young men were only ordinary workmen, and at one period of their career they had been honest! They said: there are some people who become millionaires in quite a few years; how long will it take us? And they reckoned it up and found it would take so many thousand years a rather startling calculation for ordinary young men. They came to the conclusion that they were proceeding on wrong lines. Thus they looked up their little savings and found that between them they had £40. Just at that time there was [illegible] constructional work available in their district and with their £40 they took a shed and got some of the simplest tools. They

then went to one of the contractors who was very busy and got a sub-contract. They worked early and late and for all they were worth, and found that they had made an additional 10s. a week each, when the results of the contract were obtained. Then they threw their caps in the air and said "We have found the secret." They had saved 15s. a week each. They saved some more capital and got more machinery, took some more sub-contracts and employed some of their fellow workers, who they knew would work well, and they managed to make 10s. each out of those they got to work for them. They became millionaires, John got knighted and went into Parliament, and James, being a more phlegmatic person, carried on the business and lived on more prosaic lines. They had been honest once! It is a true story of how millionaires are made.

The brothers Tangye came from Cornwall to Birmingham, worked hard and long and practised thrift: both of them became wealthy men and died highly respected and wealthy citizens of Birmingham. Practically the same story with some variations; but if you say that either of the young Tangyes, or John and James were just ordinary men, you are begging the question. These two young fellows were remarkable, long headed business men. It is true of many a working man in this country who has got organising ability. There is no class distinction, there is no hard and fast, cast-iron fence keeping people out of better posi-

tions in this country. A man can rise, if he give his attention to the doing of it. Some of us are handicapped by misfortune. I suppose most of us think we could have done quite as well as Lloyd George if we had had luck. There is nothing that would have prevented any of us playing the role of Lloyd George if we had had the ability to do it during the war. These young men, John and James, were business organisers, long-headed men; they saved 5s a week instead of backing horses and playing the fool. They didn't start business with their £40 when trade was dull; they waited until there was a good deal of constructional work about, and they got a sub-contract on which they could make money. They drew very excellent conclusions from their first experience; they put their experience into practice and continued doing it in a remarkable way, and owing to sheer grit and force of character, by organising ability and exertion and thrift, these men attained the position they did. They might have owned that having been working men themselves they knew how to get more out of those who worked for them. There is always a possibility of getting more if you know the tricks of the trade. The story of these young men does not exemplify the doctrine of surplus value; it refutes it. It shows the reason why some men make positions for themselves. They exercise thrift, they have insight, they use their intelligence, they are not afraid of hard work,

and they have organising ability, and the last is the biggest factor of all.

RIGHT LEADERSHIP.

But these doctrines of Marx have had a very bad effect in this country. We must test these things from our knowledge. Our knowledge tells us that if we want a progressive community, enjoying a high-standard of comfort, we must have harmonious relations between those factors which engage in the business of the country. If we have class warfare and friction we are erecting the biggest possible obstacle in the way of success. We cannot get away from that fact. We must have harmonious production if we are to have a satisfactory system of industry. If our industries or our commerce are to flourish, the two first necessaries are harmonious production and equitable distribution.

It is towards this equitable distribution that we have been turning our attention; and it is for this equitable distribution that schemes like that of Priestman's have been framed and developed. How are we to get this equitable distribution? Are our employers an utterly impossible class of men to get on with? Are our workers at heart Bolshevists? I do not believe it. At heart the industrial forces in this country, whether employers or employed, are Englishmen. There has been for a number of decades exasperation and suspicion which have caused estrangement, and it is that exasperation and suspicion that we have got

to get over if this country is to continue to enjoy its great rôle in the conduct of the world's affairs, which has been given us to carry through. We have, then, to remove these causes of suspicion; we have to get rid of friction; we have to secure right leadership.

From what happened prior to the war and in the early months of the war it was seen that something must be done. There were certain associations which set to work to try to right matters. There was the British Association for the Advancement of Science, a big section of which gave its attention during the war period to the effect of war on labour and currency. The other, the Garton Foundation in London, set to work to see what was necessary in order to get away from the suspicion and irritation which had caused such trouble in the past and which might lead to the losing of the war. There were quiet conferences of employers, employed, and other interested parties. A policy gradually began to take shape, and then the Government appointed a commission which was presided over by Mr. Whitley, now the Speaker of the House of Commons, and the result of that was the Whitley Report. The Commission practically adopted the recommendations of some of these conferences between employers and employed in the individual workshops, bigger conferences for the district, and an Industrial Council representative of all.

What is the object of these Councils?

They do not sit there for fun. They meet at regular short intervals to discuss the affairs of the workers or the industries for the district or the country, to find out where there is any suspicion or any cause likely to lead to friction, and get it smoothed away, explained and put right before it brings us to an impossible position, which may mean either a strike or a lock-out, entailing loss or damage or disaster, not only to individuals or individual industries, but to the whole community. There is a wise, broad, statesmanlike policy about which we need to know more, and as to which we need to have big developments at the present time. That Whitley policy is much scoffed at by some people, but if you hear it scoffed at, do not take it as condemned. Read for yourselves the publications of the Government on the subject and see what the policy is: study the instances where that policy has been employed and see what it has done. Realise that with right feeling and goodwill on both sides that policy may well be our salvation. It is worth our very considered attention.

SYNDICALISM, AN IMPOSSIBLE POLICY.

I want now to go back and look at some of the things which occurred some time back but which have had great effects on subsequent events. I happened to be somewhere in the West County on the 27th of February, 1912, and I bought a paper—the "Western Mail." The following headlines were printed in bold type: "Amazing Situation in South Wales."

"Plot to Capture the Coal Mines." As may be imagined I spent a considerable time reading all that was said on the subject. During the later months of 1911 and in the beginning of 1912 the whole coal industry in this country was seething with discontent. Numbers of the coal owners in South Wales were said to have become rapidly rich, and the miners thought they were being exploited. They had been influenced in this not only by what they saw in the way of additional wealth going into the pockets of certain favoured individuals, but by certain propaganda agents. I do not wonder, and I do not think you wonder at the feelings of these men. They were irritated. They were going down day by day, hewing coal, doing hard work and getting their wages, and they saw certain favoured individuals becoming rapidly rich. Then there were whisperings in their ears.

Why is it that for years past there has been in this country persistent and indefatigable propaganda of what we call communism? It is because this country is the key to the position. If this country could be won over to Communism there would be little difficulty with the rest of world: so this country is marked down, and the ablest propagandists are undoubtedly employed here. This is a free country. Any man who thinks he has something which will benefit the community, not only has the right, but he ought to make known his thoughts. But there are ways and

ways of doing things. Our business, or my business at any rate, is in a cool, impartial, as far as possible scientific way, to look at these problems and endeavour to see what amount of good and what amount of harm is in them. I have to compare them with our present system, to size up our present system, to judge as to its shortcomings, and as far as possible make those shortcomings known or, what in my opinion, are those shortcomings. Especially if, looking at these things from the outside and with knowledge of what has happened in the past, one sees the weakness of the situation, one is responsible to make that known, whatever the cause or cost may be. There had been a meeting in Cardiff at which the pamphlet referred to in the newspaper had been distributed to the miners' delegates, and that pamphlet contained this new policy. At the time the miners were fighting for a minimum wage. We have been studying production and distribution. We have been seeing what will lead to the best conditions for the population of an industrial and commercial community. We begin to realise that we want harmony between all the factors, and that we also want equitable distribution. We start from those premisses.

What do we find in this pamphlet which is entitled "The Miner's Next Step." Here is the policy :

> The old policy of identity of interest between employers and ourselves be abolished and a policy of open hostility installed.
>
> Lodges should, as far as possible, discard the old method of

coming out on strike for any little minor grievance, and adopt the more scientific weapon of the irritation strike by simply remaining at work, reducing their output, and so contrive by their general conduct to make the colliery unremunerative.

That a continual agitation be carried on in favour of increasing the minimum wage, and shortening the hours of work, until we have extracted the whole of the employers' profits.

That our objective be, to build up an organisation, that will ultimately take over the mining industry, and carry it on in the interest of the workers.

That was the teaching page after page. The above are a few typical extracts. Here we have an instance of Syndicalism, naked and unashamed, a thing which bears its refutation on its own fact. It is an impossible policy for a country like this, which is dependent on its industries and commerce. Such a policy could only lead to one result for this or any other country, and that is disaster.

Our business is to look at this policy and realise what it means to the future of a country for which we have the greatest love and affection, and whose future is the greatest thing in the world to us. Today we have that sort of teaching going on amongst us. These doctrines are being preached broadcast. Our workers are absolutely sound. They may be led, but they cannot be driven, and it is our business to see that they have the chance of being led aright. Our employers are not blameless in this matter. Let us all realise that there have been regrettable things in the past. The fault is not all on one side. Let us make it our business, whether employers or employed, to realise that there have been

faults on both sides, and realise from what has happened in Eastern Europe, what those experiments of Communism would mean if an attempt be made to carry them out in this country. Some of our labour leaders have been over to Russia and seen for themselves what is going on. They have wept over the consequences of this horrible policy. We have got to be frank when considering these things. At a time when our colliery industry is only just beginning to make a little headway; when our engineering trades are said to be on the threshold of a big struggle we must very carefully consider these happenings. Take the engineering trouble. I know very little more of it than the man in the street. What employers tell me is this: that for years past they have been less and less masters in their own house, and and they consider that the time has come when they must make a stand. What do the men say? That their well-being, convenience and comfort are not considered, that what they object to is unrestricted overtime which in times of slackness leads to much unnecessary unemployment. That a man has his social pleasures which receive no consideration. A workman may make his arrangements to go out with his wife or fiancée, but without notice may be told to continue working. His convenience is not consulted. Thus there is friction and trouble on both sides.

What is the commonsense policy for us to advocate at the present time? Surely not

listening to propaganda which one of our labour leaders tells us is partly financed from Russia. But let us look at this matter calmly and clearly in the light of experience and knowledge, in the light of the Whitley Report. The interested parties should meet together, regain each other's confidence and attempt to bring about a better state of affairs.

CAPITAL AND ITS USE.

Chapter XV.

THE third factor in production is called capital. We have already noted that capital differs from the other two factors in that it can do nothing of itself, for it is an instrument which requires an agent to set it to work. Thus at the very outset of our consideration we have a phenomenon which is differentiated very distinctly from the other two factors. Before we look into this instrument in production, there are difficulties which we come across and great problems which we have to face, because this is a factor which may well be one of the greatest blessings of the human race but, like all our blessings, can either be used or abused, and in certain directions this factor capital, has been badly abused.

We ought to start with a clear understanding of what capital is. Recent books warn us against defining it. That little book, which is now so popular, "Money and Money's Worth," warns the reader against the economists who define capital. The author shows that definitions are not exclusive or inclusive enough; but how can you deal efficiently with this factor, at any rate in a preliminary consideration

of the economics of production and distribution, unless you have some idea of what capital is? The economists have given it a simple definition, which it is wise to accept for our purpose. The economist tells us that capital is wealth which is being used in producing more wealth; wealth used productively. Obviously one sees at once that while all capital is wealth, only one special sort of wealth is capital, viz: that part of wealth which is being utilised for the production of more wealth. You can illustrate this from the individual possessor of wealth, or from the collective ownership of wealth.

WEALTH AND CAPITAL.

Take, for instance, one of our wealthy manufacturers. He has in his house a collection of pictures and furniture. Perhaps he collects old china, or coins. His house and its contents as he goes on collecting may become of great value. Thus there may be a great store of wealth represented by that house and its contents, but that wealth is not being used productively. That same man has his factory, his workshop or mill and you go with him and see the site and plant and equipment, the raw materials and all that is necessary to carry on the business. There you have a great accumulation of wealth utilised for making more wealth. It is wealth just as much as the wealth in the house, but it is wealth utilised for the special purpose of production. We call that capital. We can go on refining as much as we like with a question like that. We may

find that the same man has a motor car and sometimes he uses it for business purposes and sometimes for pleasure. Is that capital? Of course it is very difficult to get an exact line of demarcation. Fortunately it is not necessary to do so. We need to have a general acquaintance with what we mean when we are talking about capital. To illustrate the point from another side, it is very difficult to differentiate between income and capital. A business man is, at any rate in normal times, accumulating income from week to week and month to month. He does not wait until the end of the year to get his income together and decide how much he is going to use for capital or for expenditure of various sorts. He is using that income all the time if there is a useful outlet for it. Thus he may be utilising his income as capital as the year runs on. You can use these refinements and confuse the issue in such a way as to get into a kind of London fog. Anybody can do that, the difficulty is to get a clear, straight issue, understand where you are, and be able to see the difficulties and cope with them.

The same thing is true of collective wealth. Take a modern city. It is wealthy, and the wealth of the city belongs to the citizens. You go, for instance, to the art gallery, and there you see pictures and collections of china and various interesting things which have been gradually accumulated. That building and its contents are of great value.

But that wealth is not being used actively for the production of more wealth. Occasionally an artist may come in there to copy a picture or get an inspiration which enables him to improve his art, and to that extent you capitalise for a certain time, but we can disregard that for our purpose. There is wealth of a city which is wealth pure and simple. We have only to go to the electric works or the gas works, and we see a large amount of wealth belonging to the citizens being utilised in producing more wealth. That is capital. We can change capital into wealth and wealth into capital, under certain conditions. There is no great difficulty provided the capital is get-at-able. Therefore, it is well worth commencing with a definition and understanding what capital is. Generally speaking capital is wealth used in the production of more wealth. We can confuse the issue by dragging other things into consideration, but they are not helpful.

What does this instrument capital do for us? Where did it come from? What phenomena arise out of it? What are its functions? Who uses it? Has it always existed? We want to answer all these questions. So far as we know all through human history there has been capital. We cannot in historical records find any time when there were not accumulations of capital in the world. We have written records and stone inscriptions, we have clay tablets going

back a long way, all recording the existence of capital, either directly or indirectly. We know about the banking system of Babylon over three thousand years ago and find that it worked in an extraordinarily modern way. In the old cave dwellings we find rude scratchings both on the sides, and on bones of animals. These traces in caves are probably the oldest records that have come down to us. What do we learn from these things? That men in those early days must have had something to assist them in their struggle for existence. The conditions under which primitive man lived were terrifying. From the moment man discovered the use of a smooth stone or a certain shaped stick in enabling him to get his food more easily, he had discovered that there was a third factor in production that would be very useful and make life less hard and less terrifying. The great function of capital is to ease the burden of life. Our very civilisation and progress are bound up with this third factor. Without it the other two factors would do very little, for their efforts would be sterile without the assistance rendered by capital.

WHAT IS CAPITAL?

Some people seem to look upon capital not as a blessing but a curse. They tell us that saving is a mischievous thing. They possibly know the effect of money on certain minds, and they confuse money with capital, and hence condemn capital. That is due to misapprehension and ignorance; it is not the

result of knowledge. The great mass of capital throughout the world consists of useful goods, machines, tools, ships, railways, foodstuffs, raw materials, for all these things are capital, and without them we cannot carry on business and manufacturing, nor can we produce to advantage. We saw in a previous chapter how the ordinary farmer with his men using ordinary tools, seeds and fertilisers could only produce a minimum crop, but if you get team work, using all types of brain power and all the different forms of capital required for the performance of the operations connected with farming and scientific methods of cultivation, you get not a minimum crop but a maximum crop. What is true of farming is true of all our manufacturing and productive activities. You cannot work to advantage without this great factor, this instrument in production.

How does it originate and develop? We are accustomed to accumulations of capital in such amounts that practically no scheme for the benefit of mankind is too huge to be financed, if it can be shown that a corresponding benefit will result. It would have been no good inventing the steam locomotive in the reign of Queen Elizabeth because there was not enough capital in the country to utilise the invention; it might have been a useful toy. But with the opening of the 19th century, and the accumulation of capital, resulting from developed trade, the steam engine, the locomotive, and the marine engine

came along, and we had capital enough to take advantage of them.

The economist tells us that the origin of capital is abstinence or thrift. We look around and perhaps some scoffer points to a multi-millionaire and draws a smile. Fancy talking about abstinence in a Rockefeller! And yet it is true. We are not all millionaires, but we can all assist in the accumulation of capital. There is only one way to do it, and that is by abstinence, self-denial, and thrift, by seeing that we can thus benefit not only ourselves but the community in which we live, by putting off present enjoyment for a future benefit. Primitive peoples saw this. They found that when they killed an animal for food, if they made its flesh last for an additional day or so, they had leisure in which to attend to other things. This gave them an accumulation of capital enabling them to take means for improving life and its conditions. It gave them a chance of improving some weapon or tool, to make some weapon or tool in greater quantities. When once there were these accumulations or aids to production and progress going on, although the growth at first might be painfully slow, still it had commenced, and eventually it goes on in increasing ratio. Thus we get this instrument available in more adequate quantities. In a country like ours, where we have in normal times plenty of capital on the money market, we get accumulations of wealth which can be utilised for the

various purposes which tend to the betterment of life.

You may say: "Yes, I go so far. I see that you can only by thrift accumulate these machines, these tools, these raw materials, these foods and clothes, and even the medium of exchange money. What I object to is that when they are accumulated there is a charge made for the use of them." It is worth while to consider this point. Our Socialist friends make great fun of the cabbage patch illustration. But it is easily tested. If we take as an illustration two thrifty men who start in business as engineers, it is very difficult to explain all the details to a mixed audience. But if one takes a homely, simple illustration which we can easily test for ourselves, there we have an illustration which is of the greatest use.

LESSON OF THE CABBAGE PATCH.

What is the cabbage patch illustration? Many of us may have watched the allotment movement. A field is ploughed up and a number of people become allotment holders. At first they have very little to go on with. They can buy a spade and a simple tool or two. They dig the soil, get some sort of manure and put it on the ground, plant their seeds, and probably their first crops are not very great. If we watch these people for a few years we find that there are differences between these little cultivated patches. Some of them are much more flourishing than others; some

of the holders are much more go-ahead, whilst others remain minimum producers. What has happened? We watch two men with plots side by side. They both grow crops practically of the same kind; they work the same number of hours, they use the same sort of tools, to grow the same crop. One of these men is delighted with his fresh vegetables, and he takes them home and eats them and enjoys them, nor can you blame him; he has worked for them. But the other man says: "I have got a fair stock of vegetables, if I sell some of them I can get a better spade or a better fork or tool or some better fertiliser." Instead of eating the whole of his crop he only consumes part of it, the other part he sells in order to get better things. What happens the next year? He is able to work more easily for he has got the assistance of an increased amount of capital. He puts in fewer hours on his allotment and gets a better result. Here is a good illustration of what capital will do for a man. It eases the burden of life, saves him many hours of work on a definite task. It makes the old twelve hour day unnecessary. It renders possible an eight hours day or even less. Here we have the secret of it. "Yes," you say, "I can go with you so far, but you have not given any argument for the payment of the use of capital. If I want to borrow capital to improve my business, or get better tools for my allotment or small holding or farm I have to pay interest if I have not been

able to save." Continue to use our little illustration, and is it not obvious what happens? Our two men are working side by side. One now is getting bigger and bigger crops, but curiously enough he puts in less time in getting those crops, whilst the other man works the same old hours with the same indifferent tools, and is not getting the same advantages out of his plot as the other man. He sees the other man's tools lying idle for so many hours a week, and he says: "Look here, won't you let me have the use of those improved tools of yours so that I can get through my work more easily?" The man says: "All right, but if you have the benefit of them you will get a bigger crop, you will work less time, thus part of that extra crop is due to my tools." They strike a bargain which decides how much of the crop should go to the man who lent the tools. There is the origin and the justification of the payment of interest on loans of capital. Capital enables a man to make a bigger profit with less exertion, and part of this extra gain is due to the man who has exercised abstinence and thrift. Such a man is then getting the full reward for his abstinence.

WAYS OF USING CAPITAL.

There, then, is the origin of capital, abstinence or thrift, and the justification for the payment of interest. I think we can develop that justification for ourselves in cases of loans of capital for business purposes.

I have not yet answered the other query about the abstinence of the millionaire. Under our social system if you are in possession of any property by good title you can do what you like with it so long as you do not offend against the law. Now let us apply this. We will suppose that one of us receives a long envelope one morning, and on opening it finds that it is from a firm of solicitors informing him that owing to the death of somebody he had forgotten all about he had come into a very comfortable fortune. Such a thing has happened fairly frequently. People wake up some morning to the fact that somebody in Australia, America or somewhere has died and left them £10,000, £100,000, half a million, even more. Suppose one of us happens to be that fortunate individual. What is he going to do with that money? The fortunate legatee is told that on fulfilling certain formalities, this firm of solicitors is prepared to hand over to him in round figures £100,000. He fulfils those formalities, and gets the £100,000. What will he do with it? He can quite legitimately use that money for a variety of purposes. If he has got a debased mathematical turn of mind and feels that he has got some special scheme which would "break the bank at Monte Carlo" he goes over there and risks his £100,000, and he may get through the whole of it in a remarkably short time. That would perhaps be the quickest way to deal with the £100,000. Or he could with

that money hire a yacht and go for a trip, view the wonders of the Mediterranean, enjoy the health resorts and visit places of interest. He could continue that for quite a considerable time. Or he could become a collector of objects of art and outbid certain buyers. In a period of time, more or less short, the £100,000 would come to an end. In other words he could use that money as dead wealth and enjoy it.

But there are other possibilities. He, the legatee, might say to himself: "Well I have come into this money. At the present time I can obtain from industry 5%, 7%, or 8% or I can loan that money to a Town Council or Corporation to enable them to get a better water scheme, electric lighting scheme or a gas supply. If he lend that money industrially what happens? He parts with his wealth and he gets in its place an entry in a book, or a piece of paper. From time to time he receives the agreed interest. Now what has happened? He has preferred a future smaller benefit to an immediate great pleasure. The great but passing benefit has been deliberately given up in favour of enjoying that capital continuously. There is a benefit to him but there is also a benefit to the community in which he lives. He has an annual income which, on a sum like that mentioned, is sufficient to keep him well outside the workhouse for the rest of his days if the money is well invested. But look at the effects on the community. There has been

that considerable sum added to its industrial and commercial resources. The owner is giving the community the means to carry on on better lines and he has helped to develop in some way the industries and commerce of the community in which he lives. He has exercised abstinence although the sum was a very large one; he has practised self-denial; he has given up the enjoyment of the moment for the more substantial enjoyment of continued income. There is this justification for the payment of interest. At a time like this when we are short of capital, we want savers, not spenders; we want those who will exercise thrift and self-denial and will give us the means to develop our industries and commerce. It is all very well to grumble about the rates of exchange and say they are making trade bad. They are against us, but they are only one part of the problem. It is for everybody to do his bit, and it is fairly obvious that if everybody connected with the commerce and industries we have in this country, and in the countries in which we have friendly commercial relations, were to do their bit, it would go a long way towards solving the entanglements of exchange. At any rate with good will all round we should find a method for getting round the corner. Once properly commenced, the improvement would be considerable. There we have the origin of capital, the growth of capital, some of the functions of capital, and justification for paying for the use of capital.

CAPITAL—ONLY AN INSTRUMENT.

Capital is an instrument and not an agent in production. An agent is a thing that does something actively. Land does that, labour does that, human effort does that; but this instrument requires setting in motion. It is for the most part inanimate; it is unable to do anything of itself. Who is it that uses this instrument? Every instrument must be used: it does not matter whether it is a piano or a golf club, it is no good by itself. We are getting no pleasure from that piano standing there, but if Mr. Paderewski came and commenced to play upon it he would give us a deal of pleasure. An instrument is no good without an agent to set it in motion.

We begin, therefore to consider capital as an instrument, but we soon find that it differs from a piano or a golf club. There are a number of special things about it which differentiate it from ordinary instruments which are set in motion by some human agent. Capital as an instrument is consumed in the using. Some of these days my doctor will probably prescribe that I should take up golf, that I have been leading too strenuous a life and that I need some healthy exercise which is not so strenuous. He will advise me to go to a golf club and consult the "pro" who will fit me up with clubs, and he will guarantee that if I play a full round once or twice a week I shall restore my jaded constitution. We will suppose I take this advice. I get hold of the

"pro" and buy a beautiful set of clubs in a calf skin case and start off. The "pro" makes a nice little tee and puts the ball on it and gives me some instructions how to strike the ball. I attempt my first drive. What will happen? I shall probably use a great deal of force and the ball will roll a few inches off the tee or I shall slice it into some snag or pull it into a bunker. Anyway the onlookers will be amused or annoyed, especially those who want to get past me. What should be noted is that after I have done, the golf club is all right. If a Braid comes along he may use that same driver and give a display of golf which will please the gods. Thus the instrument is not destroyed in using, and as soon as the expert comes along he can take up that same instrument and give you extreme pleasure. The instrument remains and it is not destroyed.

On the other hand, this instrument, capital, is destroyed, for it is consumed in the using. It practically ceases to exist, and it has got to be reproduced in the same amount that you have borrowed or that you have saved or there is loss. We have a curious condition attaching to this instrument. Perhaps we say "I don't see that. A man builds a factory, equips it with machinery: the capital is there all right." So it is, but that capital is beginning to depreciate from the very moment the factory is opened. Capital may be fixed or circulating; it is only a matter of degree as to the time in which it is consumed. Fixed

capital is consumed more gradually; it may last a century but it is eventually consumed. Look at the huge capital of our railway companies, £1,300,000,000. £800,000,000 of that has been sunk in the permanent way, buying land, getting parliamentary sanction to the scheme, surveying, levelling cuttings, making tunnels, making bridges, laying the rails. You could not get that capital out again, it has gone; but so long as the railways function that capital can be kept alive by a wise policy of renewals and repairs. But suppose something came along which superseded railways: suppose some form of vehicle was invented which dealt a death blow to our railways, what would happen? That £800,000,000 has irreparably gone, we should no longer keep it alive. To get the country back to its original agricultural purposes would be a costly business. We should have to remove the rails, sleepers and ballast. A great deal of capital, therefore, is being consumed or has been consumed in the using.

VALUE OF THE ORGANISER.

It is obvious that if this is such a dangerous instrument to utilise, so much more dangerous than a piano or a golf club, or any other instrument we have been considering, the man who can act as the living agent for setting this instrument in motion must be a special sort of man. And that is what we want to realise. The man who, under modern conditions, can utilise capital to his own

benefit and to the benefit of the community in which he lives, is no ordinary commonplace individual; he is a very special individual to whom the community is very considerably indebted. Any man can borrow capital and play the fool with it, but only a very highly skilled man can utilise capital aright and get the best out of it. That is what people forget. That is what Russia forgot. Lenin and Trotsky thought they could drive capable management out of the banks and the factories and workshops, the railways and steamship companies, and give these activities to ordinary manual labour to carry on. There has been disillusionment which brought some of our Labour leaders to tears, when they saw on the spot the misery and ruin wrought by this disastrous policy.

Under modern conditions you cannot have a progressive country, progressive industries and commerce, without utilising greater and greater quantities of capital, and the man who can utilise this instrument aright is a very highly skilled man and practically commands his own price. We have seen how co-operation has failed in production because it has ignored this, whilst those carrying on productive work on Limited Liability lines have succeeded because they realise the value of organising brains. What reward will the organiser get for his services? Some people find their reward in what we call profits, but in this country the greater proportion of our

industries is carried on under Limited Liability conditions, by means of which the organisers get the salaries that their ability shows they are worth. When Mr. Carnegie and his friends organised the United States Steel Corporation in America, they gave Mr. Schwab, the man who was capable of controlling such a huge business, a right royal salary, because they considered he was worth it and could earn it.

PROFITS AND SALARIES.

Here then are two more phenomena arising out of this factor, the phenomenon of profits and the phenomenon of salaries or wages of management. If we listen to people who talk in the market place, or if we read books which are popular among certain people, we find it said that profits are made at the expense of the worker. Is that true? Profits, the economist tells us, are made neither at the expense of the worker nor at the expense of the consumer, in those industries which are the staple industries of of the country and are subject to competition. Can this be explained? Staple commodities are in one way just like agriculture. There can only be one price for any one commodity in one market at one time. We have seen the effect of that on the economic rent of land. The price of corn goes up as inferior soils have to be brought under cultivation to supply a given market, and the difference between the degrees of fertility of the different soils gives an

indication of the economic rent of the land in question. We have, the economist tells us, marginal land which is only just worth cultivating, and that gives the measure of the rent of land for supplying the same market. We have, curiously enough, exactly the same phenomenon in connection with industrial production. For the organisers of industry are of different ability and of different productive power. There is the marginal man who can just get along; but if the breath of adversity comes he goes into the bankruptcy court. In normal times he can just keep his business alive. It is this type of employer, as a rule, who pursues a policy of sweating labour. He carries on his work under inferior conditions. It is this type that should be discouraged and penalised, as it is they who produce at the greatest cost and so cause high prices. Yet it has been the policy to criticise and even penalise the successful business man, who can organise business successfully, earn large profits for himself and provide regular, well paid employment for those who work for him. By encouraging this of type of man and by driving the inefficient employer out of business, costs will decrease and production be carried on on progressively better conditions.

CONCLUSION.

Chapter XVI.

WE can now sum up some of the foregoing problems.

How many people to-day realise that since 1914 a great change has taken place? We may call it change, or revolution, or we may call it development, but the fact remains that to-day is as different from the pre-war days, as the eighteenth century was different from the nineteenth.

The greatest problem of all before us as a people is to accustom ourselves to this changed condition, for we have got to understand the full meaning of it and take the necessary measures to meet it.

In order to do this we must know the forces at work, and the phenomena connected with them. A study of practical economics should be our first step. For instance, consider labour: the labour force does not consist of only one special part of human effort. It is the whole human effort required in the work of production. No one section of the community can take all the credit to itself, and claim that it, and it alone, creates wealth, that it alone produces the commodities that we need. We require not only brew and muscle

but a number of intellectual qualities which supply the power to investigate and research. Under modern conditions none of these different forms of human effort can stand alone or prosper alone. Any one attempting to work by itself will only obtain a minimum result; but by team work; by utilising, in the light of present day knowledge, all the different forms of human force, whether of brain or of muscle we get team work which produces, not a minimum but a maximum to the great benefit of the whole community.

That being so, how are we to get this team work? Obviously the first thing is to make known the conditions. We must make known the necessity for team work and what results from it. The illustration taken from the primary industry, agriculture, is so striking that it is worth repeating. If we attempt to carry on agriculture under simple conditions we get a minimum result; but if we bring in the inventor, the metallurgist, the chemist, and the physicist to assist the farmer and his labourers we know that we get a maximum crop. We can apply that illustration to all production, for it is equally true in the mill and in the workshop.

The ordinary employer with the ordinary workman doing their work under simple conditions would produce something, but it would be a minimum. But give them the benefit of accumulations of capital, the benefit of the inventor's work and the results of scientific

investigation, enable them to make use in their every day work of the whole sum and substance of human knowledge on that special industry, again we get not a minimum but a maximum result. That result is due not to one section; it is not entirely due to the organiser, or to the operative, or to the inventor, it is due to the co-operative effort.

LEADERSHIP AND ORGANISING POWER.

Let us take a few points which both employers and employed might with benefit consider. First and foremost, the need for leadership. In March, 1918, the war was nearly brought to an end. The great German offensive broke our line, or, at any rate, drove us back so far that it seemed that we might not be able to recover. I was recently talking to one of our officers who was in that affair, and he said that if the Germans had but known, a very little extra effort would have completed the business. Fortunately they did not know. Now what was wrong during a great part of the war? Inefficient leadership. When that great man Foch came forward there was a different feeling. The same officer I was talking to said that as soon as Foch matured his plans everybody, from the senior officers right down to the lowliest man, felt a thrill. There was leadership. The things that were necessary arrived to the moment; the schemes that were laid were known to the people who had to carry them out, and to no one else, and they worked like

clockwork. There was leadership. What went wrong with the German scheme? The Germans had the finest military machine that had ever been prepared to attempt world domination. Never in the world's history, I suppose, had a machine been so carefully perfected. What was lacking? Leadership. If Ludendorf and Hindenburg had been leaders like Moltke and von Roon; and Bismarck had been chancellor, the war, humanly speaking, might have had a different course. All men are not equal. It is no use blinking facts. Ask the captain of a cricket or football team if all men are equal, and hear what he will say. And it is the same in business or commerce. Different men have different abilities, and they have their abilities in different measure; each man is able to perform a certain part in the work that the community has to carry on. All men are not equal and it was not intended they should be. It would be a very insipid world if we were unable to get assistance and advice from those who are wiser and stronger and better than ourselves.

Not only labour but many other sections of our community need to realise the value of leadership and organising power. We have seen how we should benefit if we could restrict manufacturing to the most skilful organisers. And have not the Labour Party too had their lessons in this? Take for instance the frictions and strikes of recent years. Some of them have been singularly unsuccessful.

What has been the trouble? English Trade Unions have been organised as no other Unions. The fault has not been so much in organisation as in leadership. With divided counsels there was weakness and uncertainty. The whole situation teaches us the value of capable leadership. Whenever there have been great schemes attempted, the success of them has depended on leadership. Take the work of Robert Owen, one of the great heroes of labour. Robert Owen goes out to America with his band of followers and establishes New Harmony. So long as Owen is there the place prospers. Owen comes away and dissentions break out, there is trouble and the experiment begins to decay. Owen goes out again, puts things right; three times he pulls the thing round, and then he realises that even communism depends for success on the individual. Is it extraordinary that finally he gives up the attempt in despair? Leadership is necessary not only on the battlefield, but in civil and industrial life. We have got to realise that to obtain the best results we must have leadership, the organiser in the workshop and in the factory; the master mind whose orders must be carried out.

THE MEANING OF CAPITAL.

Only the other day I was reading the interesting report of the London and Manchester Building Guild which some people expect may revolutionise industrial affairs. This guild is the latest form of industrial

organisation, and it is to do away with the necessity for employers. But there are to be managers and the discipline is to be perfect. No man is to be able to say what he will do or what he will not do. If he does not obey the foreman's orders the foreman suspends him and takes him before a superior Committee. He has a court of appeal, but order and discipline must be observed, because the organisers of the guild system know that without order and system they cannot hope for success. All this emphasises the necessity for leadership and organising power.

Then there is a second point that labour and the friends of labour should remember, and that is about capital. Endeavour to understand what capital is. Do not abuse capital until you know what it has done, what it can do, and what it ought to do for the community. Do not misunderstand the difficulties connected with capital. There is a large number of people who think that the employers and business men of this country have any amount of capital available. That is quite a mistake. Capital is a shy bird. Like a shy bird it can be attracted, but it can be repelled, and if it is once repelled, it is very difficult to attract again. We may fail to attract capital efficiently or effectively in the country at the present time. We may lose a big part of our capital, and if we do we shall suffer.

Those who talk about nationalising our

industries think the Government has untold supplies of wealth. What is the truth? So long as we are producing wealth, and are making a satisfactory national income, the Government have certain restricted powers of taxation. They have not unrestricted powers of taxation, because if, in normal times, they abuse the possibilities of taxation they drive capital out of the country, and our industries and the whole community suffer. Neither employers nor the Government have unlimited supplies of available capital. Thanks to special conditions in this country, we have had great accumulations of capital available. We have created, thanks to a good banking system, a money market which has enabled us to finance any scheme which promised to benefit the community. But we can easily lose this advantage.

CAPITAL IN RELATION TO INDUSTRY.

Compare, for instance, our own country with a country like France. The French, at any rate in pre-war days, were probably more wealthy than we, and yet the French constructed the Suez Canal and we got the benefit of it. This was due to a very extraordinary set of conditions. It was confidently expected that the French would reap great benefit from the Suez Canal, and that the French ports on the Mediterranean would become the great ports of the world. The French are a wealthy people, but their wealth is scattered wealth. They have never shown great confidence in

their banking system. The ordinary Frenchman prefers to be his own banker; the smallholders in France usually keep their little savings at home. There are many millions of francs worth of capital scattered through France, but it is not available on the money market. In England everybody is encouraged to bank his spare cash, with the result that we have a money market available for any sudden demand which promises to be beneficial. But there is more in it than that. It is sometimes said that we have many millionnaires and wealthy men, and that there is a better distribution of wealth in France. It may be an advantage to have a better and a more equal distribution of wealth and live in a quieter way. France is still mainly an agricultural country, whilst a century ago we definitely decided to become an industrial and commercial country. We have nearly quadrupled our population since those days and we have managed—much as the system is criticised—to support that greatly increased population at a higher standard of comfort. We have numbers of very wealthy men. How do they benefit our system? Many of them do so quite unconsciously. Where you get great wealth in a few hands what happens? You may not like it and you may criticise it; but there is a benefit connected with a condition of affairs such as exists in this country. Where you have great masses of wealth in a few hands, that wealth cannot all be eaten; it can

only be enjoyed to the full by employing the greater part of it industrially or commercially. One of the advantages we get as an industrial and commercial country through a comparatively small number of people holding large resources, is that those resources are more readily available on the money market. If we had a better distribution of the wealth of this country; if it was distributed more on the French system, it might be better for the country in certain directions, but it would not make our industries and commerce work more smoothly, because it would cripple very considerably the money market as we have known it in normal times. I do not say that it might not be better, but that we would have to face difficulties in connection with finance which are smoothed over to a very great extent by present methods. Our Labour Party might well consider very carefully capital in all its bearings, and should try to understand how capital is accumulated, how it originates, what it does, and what it is entitled to when distribution is made.

PROFITS AND PRODUCTION.

There is another point which should be known by the whole community; the average profits of business and commerce are not excessive. The average profits of our railway companies in normal times are about 4%. A man told me that he had gone through the Stock Exchange Year Book and had examined the industrial companies quoted in that

volume over a series of years. He had taken out the averages, and found that the average yield of industrials was not much over 4%. That is not an interest calculated to attract the investor. It is true that certain companies which have special processes or special patents and have taken special risks, in some cases, pay very much greater per centages, but they are comparatively few and they are very much quoted in speeches in the market-place, but we do not hear the other side of the question. We ought to hear what Receivers in Bankruptcy could tell us. We should find, if we took the average profits in the business and commerce connected with the great staple industries, that they are not excessive.

Another point that should be realised by those who criticise the present demand for increased production is that increased production tends to give us decreased cost, and that if we decrease cost we can reduce our prices not only at home but abroad. It is easy to say that this cannot be done, or at any rate it is not easy to do it because the Exchanges are against us. It is always easy to put the blame on other shoulders; but the necessity now is for each one in his own sphere to do his best, and bad as the situation is, if each in his own sphere did his work honestly and well it would go a long way towards bringing about better conditions.

We must also realise the utter wickedness of class warfare as taught by Marx and those

who follow him. It is based on a mistake, and Marx must have known it before he died.

Both employers and employed now have their organisations. Trade Unions have a specially complete organisation, from local groups right up to a Parliamentary Committee. Employers have their organisations, perhaps not quite so complete. For both of these there is a great lesson that history teaches. In the Middle Ages we had our craft guilds, and what was their history? They became autocratic and inelastic; they tried to restrict the community, insisting that they should be the masters, and that the community should tamely follow and obey them in all that appertained to the making of the various goods that the members of these guilds produced. But the Englishmen of those days would not have it. When the guilds became a nuisance, the community turned upon them and rent them, and insisted on a system of freedom and liberty. If either or both the present sets of organisations were to attempt a tyranny, it could but end in failure. The community must always be greater than any section, and must insist that its interests shall come first.

OPPORTUNITIES—SYMPATHY.

Another point should be emphasised not only to our workers, but especially to young people at the beginning of life. Our social and industrial systems are very much more elastic than those enjoyed by any other country. We have no cast iron divisions between sections of

the community. There is no caste, really there is no such thing as class. We talk about class for convenience sake, but it does not exist really. It is true that we have a professional class, a military class, a business class, and so on, but there are no cast iron classes which are divided off as it were into water-tight compartments without any inlet or outlet. Consider any of these classes, and we find that the people who have done best in any of these groups have been fresh blood who have come out from some other section. Some of our best business men have been men who were born in lowly circumstances. Some of the greatest soldiers and sailors have been the same. There is no country in the world where ability can assert itself so readily and to the extent it can do in this. I know that some people appear to be dogged by misfortune but that is not true of the great majority. Most of us get to the position that we deserve, and some of us get more: not many of us get less. Remember that in this country brains, like murder, will out, and they will assert themselves.

Now what about employers? The days for any one section to ride roughshod over any other section are over and done with. The employer needs to be a man of very great sympathies: he needs to know a good deal about the aims and ambitions of labour and how those have developed during the past century; he should be able to explain things in

a way which will appeal to the judgment of a class which is getting educated and which —unless the signs of the times are deceptive— is giving much more attention to getting education than the section of the population which is usually called the employing class. Employers will have to be prepared to understand more fully the various ambitions of their workers than ever they have done before. Merely to give orders is not a position that can be maintained. There must be one master mind in a factory or mill, but that master mind must be such that it can get orders carried out because it has impressed upon every section of the workers a feeling of confidence. Employers will have to be ready to explain their reasons: they have got to win and to retain the confidence of the men they employ. The modern employer too, must be thoroughly conversant with the most up-to-date commercial methods. Too many manufacturers here looked upon the office as a somewhat needless expense. Probably the greatest lack in the great majority of manufacturing businesses in this country is to be found in the costing department. In many businesses there is no such department: in many businesses the costing is carried on by rule of thumb methods, and could not be explained to an expert accountant or expert business man.

NEED FOR WORK.

What is the result of that? The result

of not knowing what work costs or labour costs is that an employer goes to his wages book when he wants to reduce costs and he thinks: "If I can reduce my wages 5%, 10% or more, it will meet the position." This is a mistake. Where you get efficient costing the fact comes out at once that the best paid labour is the cheapest labour, America is the country which has concentrated its attention on costing systems, and some of the comparatively huge wages paid there have made clear the futility of cutting rates if they want to get low cost of production. And so I would say to the employer: "Get a good costing system and be prepared to explain it to your workers if they wish to understand it; show them how a very trifling decrease per unit in production would lessen the burden of cost and enable you to quote more attractive prices either at home or abroad. It is production you want, not lower wages." And that can only be explained if you give a demonstration on a piece of paper or a black board before the people interested. People who have tried it say that they very seldom find unreasonableness in men when the true position is properly explained.

Take all these points together and what do we see? We as a people have got to take careful stock of our position and put our backs into our work. There was an item of news in the papers a short time ago which, if true, is extremely serious. A contract for the building of ten steamers for South America

has gone from this country to Sweden. What does that mean? Where are we on wrong lines? We have to maintain in this country a huge population, and one that wishes to live at a high standard of comfort; many of us want to be better educated, to understand art, music, and literature. How are we to cater for these demands if, owing to squabbles and misapprehensions, contracts for ten steamers go to others countries when we might have had them? We drove shipbuilding from the Thames. That was the result of high wages and high profits. We were told that shipbuilding left the Thames because the Thames had no coal and iron in the near neighbourhood. For a time it flourished in the northern towns which were well-supplied with the raw materials, and then it began to go across to Ireland where there is no coal and no iron. We all know why. There was local loss it is true, but we still retained the industry. But now we are driving it away from our own country. There must be something wrong. The workers say they are not overpaid, and they deny that they restrict output. The employers deny that they ask excessive prices. Surely the course to be taken is obvious. If both these sets of people really want to live in this country in the best possible way, they should meet together to discuss how business can be obtained and retained. These things should be known to the interested parties, and they should put their full energies into the work

and make up their minds to keep the business.

For nearly fifty years we have been endeavouring as a nation to improve our education. We know that we want that education still further improved. In some of our elementary and secondary schools a good education can be had for nothing. But generally speaking, there is too much concentration of our national education in London. We want decentralisation; that is the big, growing need of our education.

CONCLUSIONS.

And so we come to our conclusions. The economist tells us that in a well-organised, progressive community you must have harmonious production, equitable distribution of what is produced, and finally a temperate consumption. If there be a want of balance between these three, the community suffers; it may function in a way, but it does not enjoy the full meed of prosperity it could enjoy.

The great cry in this country at the present time is for every individual man and woman to make a self-examination: "Am I as an Englishman doing my duty in the community?" We have got to realise the new and changed state of affairs; that we have consumed great accumulations of wealth; that we have to pass through years of self-denial and effort; that if we wish to replace or see this country once again in the position it was in 1914, we have to realise that many of the old and some of the new things will have to cease. As in a general election the result

depends on every voter going to the poll, so at the present time, if we are to face this very difficult situation aright, and if we are to come out on top, it will be done by every individual realising his or her responsibility.

The whole teaching of this attempt we have made to look at these economic problems, shows that the individual needs to learn and to understand how, not only to enjoy the privileges, but to fulfil his duties and responsibilities to the community as a whole.

I am certain that, not only at the present time, but at all times, we should be better citizens and better Englishman if we really understood what are the difficulties, the natural laws and the influences at work in connection with the economic phenomena which meet us at every juncture in our daily life.

Commerce exchange of Suffolk